

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Century Sunshine Group Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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世紀陽光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

**MAJOR AND CONNECTED TRANSACTION IN RESPECT OF
THE PROPOSED ACQUISITION OF 50.5% EQUITY INTEREST
IN SHANDONG HONGRI ACRON CHEMICAL
JOINT STOCK COMPANY, LTD
AND
PROVISION OF FINANCIAL ASSISTANCE**

Financial Adviser



BAOQIAO PARTNERS CAPITAL LIMITED

**Independent Financial Adviser to the
Independent Board Committee and the
Independent Shareholders**



A letter from the Independent Board Committee is set out on pages 31 to 32 of this circular and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 52 of this circular.

A notice convening the extraordinary general meeting (the “EGM”) of Century Sunshine Group Holdings Limited to be held at Unit 2605, 26th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong on 19 October 2016 (Wednesday) at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person should you so wish.

27 September 2016

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

“Acquisition”	the acquisition of the entire equity interest in the Target Company by the Purchaser pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the Acquisition Agreement entered into among the Purchaser, the Vendor and the Target Company dated 3 August 2016 in relation to the Transactions
“Acron Group”	Public Joint Stock Company Acron, a company incorporated in Russia Federation and whose shares are listed on both the Moscow Exchange and the London Stock Exchange
“associates”	has the meaning ascribed to it under the Listing Rules
“Beijing Yong Sheng”	北京永盛豐農資有限公司青島分公司 (Qingdao branch of Beijing Yong Sheng Feng AMP Co., Ltd*), an Independent Third Party
“Best Equity”	Best Equity Holdings Limited, a company incorporated in the BVI with limited liability and owned as to 47.17% by Mr. Yang and 52.83% by Ms. Zou Li
“Board”	the board of Directors
“Business Day(s)”	a day (other than Saturdays, Sundays, or public holidays and such other days where a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above is in force in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hours
“BVI”	British Virgin Islands
“Certain Existing Debts”	the debt owing by Hongri Acron to Beijing Yong Sheng, in the aggregate amount of RMB20,300,000.00
“Company”	Century Sunshine Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose issued Shares are listed on Main Board of the Stock Exchange (Stock Code: 509)
“Completion”	completion of the Acquisition in accordance with the terms and conditions as set out in the Acquisition Agreement
“Completion Date”	the date of Completion

DEFINITIONS

“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Consideration”	the total consideration for the Acquisition
“controlling shareholder(s)”	has the same meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among others, the entering into of the Acquisition Agreement and the Transactions by the Independent Shareholders
“Enlarged Group”	the Group, as enlarged by the Target Group
“Financial Assistance”	the financial assistance to be given to the Target Group by the Purchaser pursuant to the terms of the Acquisition Agreement, the details of which are disclosed in the section headed “The Acquisition and the Financial Assistance — Financial Assistance” in the section headed “Letter From The Board” contained in this circular
“Group”	the Company and its subsidiaries
“Group Sense”	Group Sense (International) Limited, a company incorporated in Bermuda with limited liability, whose issued Shares are listed on Main Board of the Stock Exchange (Stock Code: 601) and a non-wholly owned subsidiary owned by the Company as to approximately 51.88% as at the Latest Practicable Date
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongri Acron”	山東紅日阿康化工股份有限公司 (Shandong Hongri Acron Chemical Joint Stock Company, Ltd.*), a joint stock limited company established under the laws of the PRC
“Hongri Acron Group”	Hongri Acron and its subsidiaries

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“Independent Financial Adviser”	TC Capital International Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the Transactions
“Independent Shareholders”	the Shareholders other than Mr. Yang, Ms. Zou Li and their respective associates
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and/or any of directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Latest Practicable Date”	23 September 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Linyi Ding Rui”	臨沂鼎瑞建材有限公司 (Linyi Ding Rui Construction Materials Company Limited*), a limited liability company incorporated under the laws of the PRC and a direct wholly-owned subsidiary of Hongri Acron
“Linyi Luo Zhuang”	臨沂市羅莊區安泰物業服務有限公司 (Linyi City — Luo Zhuang Qu Antai Real Estate Service Company Limited*), a limited liability company incorporated under the laws of the PRC and a direct wholly-owned subsidiary of Hongri Acron
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	2 August 2017 (or such later date as the parties to the Acquisition Agreement may agree in writing)
“Mr. Yang”	Mr. Yang Yuchuan, a former executive Director who resigned on 4 August 2016

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“Notice”	the notice titled 《關於印發臨沂市中心城區工業企業「退城進園」實施方案的通知》(Notice regarding Publication of Implementation Proposal of “Retreating from the City and Entering into Gardens” by Industrial Enterprises in the City Centre of Linyi*) issued by 臨沂市人民政府辦公室 (Linyi Municipal People’s Government Office*) dated 2 July 2015
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Vendor”	Limited Liability Company Trustservice, a company existing under the laws of the Russian Federation and owned by the Acron Group
“Purchaser”	Long Xiang Enterprises Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company
“Purchaser’s Director”	such person as may be nominated by the Purchaser to be appointed as a director of each member of Target Group pursuant to the Acquisition Agreement
“Relocation Order”	any order or notice requesting Hongri Acron to move out from its current premises, cease production or operation
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	23,000,001 ordinary shares with par value of US\$1.00 each in the share capital of the Target Company
“Shandong Zhongfu”	山東中富化肥有限公司 (Shandong Zhongfu Compound Fertilizers Company Limited*), a limited liability company incorporated under the laws of the PRC and a direct wholly-owned subsidiary of Hongri Acron
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Target Company”	Acronagrotrans Ltd., a private company limited by shares and registered under the laws of the Republic of Cyprus
“Target Group”	The Target Company and its subsidiaries
“Transactions”	the transactions contemplated under the Acquisition Agreement, including the Acquisition and the Financial Assistance
“US\$”	United States Dollars, the lawful currency of the United States of America
“Vendor”	Prosperous Rich Holdings Limited, a company incorporated in the BVI with limited liability and is wholly-owned by Best Equity
“%”	per cent

For the purposes of this circular, the exchange rates of (i) RMB1.00 = HK\$1.17 and (ii) US\$1 to HK\$7.76 have been used, where applicable, for illustration purposes only and do not constitute representations that any amount has been, could have been or may be exchanged at such rates or any other rates or at all on the date or dates in question or any other date.

* *In this circular, the English translation of certain Chinese names, entities and addresses is included for information purpose only and should not be regarded as official English translation of such Chinese names, entities and addresses.*



世紀陽光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

Executive Directors:

Chi Wen Fu
Shum Sai Chit
Chi Bi Fen

Non-executive Directors

Guo Mengyong

Independent non-executive Directors

Kwong Ping Man
Sheng Hong
Lau Chi Kit

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

*Head office and principal place
of business:*

Unit 2605, 26th Floor
25 Harbour Centre
Harbour Road
Wanchai
Hong Kong

27 September 2016

To the Shareholders

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION IN RESPECT OF
THE PROPOSED ACQUISITION OF 50.5% EQUITY INTEREST
IN SHANDONG HONGRI ACRON CHEMICAL
JOINT STOCK COMPANY, LTD
AND
PROVISION OF FINANCIAL ASSISTANCE**

INTRODUCTION

Reference is made to the announcement of the Company dated 3 August 2016 in relation to (i) the Acquisition Agreement entered into among the Purchaser, the Vendor and the Target Company, pursuant to which the Purchaser conditionally agreed to buy, and the Vendor conditionally agreed to sell the entire equity interest in the Target Company at the cash

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consideration of US\$1 (equivalent to approximately HK\$7.76) in accordance with the terms and conditions thereto; and (ii) pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to procure the Financial Assistance to the Target Group for the working capital of the Target Group's fertilizer business.

The purpose of this circular is to provide you with, among other information, (i) further details of the Acquisition, including the Acquisition Agreement and the Financial Assistance; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group; (v) the accountants' report of the Target Group; (vi) the unaudited pro forma financial information of the Enlarged Group; and (vii) the notice of the EGM and other information in accordance with the requirements of the Listing Rules.

THE ACQUISITION AND THE FINANCIAL ASSISTANCE

The principal terms of the Acquisition Agreement are as follows:

The Acquisition Agreement

Date: 3 August 2016 (after trading hours)

Parties:

- (i) the Purchaser
- (ii) the Vendor, a company incorporated in the BVI with limited liability, which is indirectly owned by Mr. Yang, a Director until 4 August 2016, as to 47.17% and is thus a connected person of the Company under the Listing Rules
- (iii) the Target Company

Subject Matter

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital in the Target Company. Further information regarding the Target Group is set out in the paragraph headed "Information on the Target Group" below.

The Sale Shares were acquired by the Vendor from the Previous Vendor, at the consideration of US\$1 (equivalent to approximately HK\$7.76). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Previous Vendor, being the shareholder of the Target Company prior to the completion of the said acquisition, and its shareholder, the Acron Group are Independent Third Parties. The said acquisition was completed on 2 August 2016 and the Vendor has become the legal and beneficial owner of the Sale Shares.

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Negotiations among the Company, the Vendor and the Previous Vendor

The Company had preliminary contacts with the Previous Vendor regarding the possibility of acquiring the entire interest in the Target Company. As the acquisition would constitute a major transaction of the Company under Chapter 14 of the Listing Rules, completion of the acquisition shall be conditional upon the Company having complied with the requirements of the Listing Rules and the Stock Exchange (including but not limited to publishing the relevant announcement and/or circular and having obtained the Shareholders' approval in relation to the acquisition). Accordingly, such conditions precedent must be stipulated in the sale and purchase agreement in order for the Company to comply with the Listing Rules in respect of the acquisition.

However, the Previous Vendor did not agree that (i) the completion would be subject to the compliance with the publication of the relevant announcement and/or circular under the Listing Rules and the Shareholders' approval at the general meeting of the Company which would prolong the completion of the acquisition; and (ii) the acquisition might not proceed because of non-fulfillment of such conditions precedent.

To resolve the deadlock and to facilitate the acquisition of the entire interest in the Target Company by the Purchaser, Mr. Yang, being an executive Director at the relevant time, procured the Vendor to enter into a sale and purchase agreement on 22 July 2016 with the Previous Vendor on substantially the same terms and conditions as those of the Acquisition Agreement (except for the provision of the Financial Assistance, which was agreed between the Purchaser and the Vendor in consideration of the current financial position of the Target Group) to acquire the entire issued share capital of the Target Company at the cash consideration of US\$1 (equivalent to approximately HK\$7.76) and meanwhile, the Vendor entered into negotiations with the Company for the sale of the Target Company to the Company. As advised by the Vendor, the Vendor undertakes to the Previous Vendor to procure the repayment of Certain Existing Debts by Hongri Acron as defined in the paragraph headed "Certain Existing Debts" below.

Consideration

The consideration of the Acquisition of US\$1 (equivalent to approximately HK\$7.76) shall be payable by the Purchaser at Completion.

Basis of Consideration

The Consideration was determined based on arm's length negotiations between the parties with reference to the operating and financial performance as well as the future prospects of the Target Group. When determining the Consideration, the Company has taken into account:

- (i) Hongri Acron's market position in the fertilizer business and the brand strength of its products as disclosed in the paragraph headed "Hongri Acron and its subsidiaries" under the section headed "Information on the Target Group" in this letter;

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- (ii) the operating synergies and potential business growth by the expansion of the production capacity and sales network to be realised from the Acquisition;
- (iii) the net liabilities position of the Hongri Acron Group as at 30 June 2016;
- (iv) historical revenues and earnings of the Hongri Acron Group as stated in this letter, in particular that Hongri Acron had a strong revenue base and had recorded losses consecutively for the past few years were mainly due to the business interruption in 2015 and 2016 as well as the impact of assets impairment and corporate guarantees as further explained in the section headed “Financial Information of the Target Group” in this letter;
- (v) the Financial Assistance to be procured by the Purchaser; and
- (vi) the strategic benefits of the Acquisition as discussed in the paragraph headed “Reasons for and benefit of the Transactions” in this letter.

The Directors (including the independent non-executive Directors after taking into account the opinion and advice from the Independent Financial Adviser) are of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole. The Company intends to satisfy the Consideration by utilizing the internal resources of the Group.

Certain Existing Debts

Pursuant to the Acquisition Agreement, subject to Completion taking place, the Purchaser undertakes to use reasonable efforts to procure Hongri Acron or its subsidiaries to repay the outstanding balance of the Certain Existing Debts which represent the refund of prepayment for goods from Hongri Acron to Beijing Yong Sheng, a customer of Hongri Acron, in an aggregate amount of RMB20,300,000 by not later than 25 December 2016. In the event that the outstanding balance of the Certain Existing Debts is not fully repaid on or prior to 25 December 2016, the Purchaser shall procure the provision of Financial Assistance for the repayment of the outstanding balance of the Certain Existing Debts by not later than 30 December 2016.

The amount of the Certain Existing Debts is final and non-interest bearing and shall not be adjusted by any interest or penalty accrued or paid.

Financial Assistance

In light of the current financial position of the Target Group, in connection with the Acquisition, the Purchaser has conditionally agreed to use reasonable efforts to assist the Target Group to procure financing for the working capital of the Target Group’s fertilizer business.

Pursuant to the Acquisition Agreement, the Purchaser, subject to the fulfillment of condition (b) as disclosed in the paragraph headed “Conditions Precedent” below, agrees to use reasonable efforts to assist the Target Group to procure financing from banks and

LETTER FROM THE BOARD

financial institutions and/or shall provide any forms of guarantee or securities (upon request by such banks and financial institutions) in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$292,500,000) provided that, among others, all the proceeds from the financing procured by the Purchaser shall be solely used by the Target Group for the working capital of the Target Group's fertilizer business including the repayment of Certain Existing Debts by not later than 25 December 2016 but not for any other purpose.

The Acquisition Agreement also provides that, all the costs and expenses incurred by the Purchaser in procuring such financing shall be borne by the Target Group, and the Target Group shall be liable to the Purchaser for all the debts and financial obligations under the relevant financing arrangement including the Financial Assistance. The Target Company and the Vendor shall procure the Target Group to repay all such outstanding loans and interests pursuant to the terms of such financing documents or upon demand of repayment by the banks or financial institutions, and the Target Company shall indemnify the Purchaser against any losses or damages suffered by it pursuant to arising out of any breach of the financing documents by the Target Group in respect of the Financial Assistance.

In consideration of the Purchaser agreeing to procure the Financial Assistance, each of the Vendor and the Target Company undertakes to the Purchaser, from the date of the Acquisition Agreement until the date of Completion or the Long-Stop Date, whichever occurs earlier as follows:

- (i) procure Hongri Acron to pledge its products brands to the Purchaser and/or the banks and financial institutions (if required by such banks and financial institutions) as security for the financing arrangement in connection with the Financial Assistance;
- (ii) appoint or procure the appointment of the Purchaser's Director within 5 Business Days from the date of the Acquisition Agreement such that the Purchaser shall control the majority of the seats of the board of directors of all members of the Target Group; and
- (iii) none of the members of the Target Group shall take, permit to occur, approve, authorize or agree or commit to do, and each of the Vendor and the Target Company shall ensure that each of the members of the Target Group will not take, permit to occur, approve, authorise, or agree or commit to do, whether in a single transaction or a series of related transactions, whether directly or indirectly, and whether or not by amendment, merger, consolidation, scheme of arrangement, amalgamation, or otherwise, any other action, including but not limited to, (i) borrowing or otherwise raising money or incur any indebtedness (save for certain exceptions); (ii) selling or otherwise disposing of the business/assets owned by the Target Group (save for certain exceptions); or (iii) cessation or material change of the Target Group's existing business without the prior written consent of the Purchaser or a Purchaser's Director.

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Conditions Precedent

The Completion is subject to the satisfaction or waiver (as the case may be) of, among other things, the following conditions precedent:

- (a) Due Diligence: the Purchaser having been satisfied with the results of such enquiries, investigations and due diligence reviews of the business, affairs, operations and financial position of the Target Group by the Purchaser or any of its officers, employees, agents, professional advisers or other agents as the Purchaser in its discretion deems necessary, desirable or appropriate to undertake;
- (b) Shareholders' Approval: the approval by the Shareholders at the EGM of the entering into of the Acquisition Agreement, the provision of the Financial Assistance and all other transactions contemplated under the Acquisition Agreement, having been obtained, all in accordance and compliance with the Listing Rules;
- (c) Corporate Approval: all corporate approvals required for the Acquisition and the execution and performance of the Acquisition Agreement by the Purchaser having been obtained;
- (d) Warranties: the warranties contained in the Acquisition Agreement remaining true and accurate in all respects and not misleading in any respect as of the date of Completion by reference to the facts and circumstances then subsisting;
- (e) No Prohibitive Action: no notice, order, judgment, action or proceeding of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated by the Acquisition Agreement or which is reasonably likely to materially and adversely affect the right of the Purchaser to own the legal and beneficial title to the Sale Shares, free from encumbrances, following the date of Completion;
- (f) Waiver of Pre-emption: the waiver of pre-emption or similar right (if any) with respect to the transfer of the Sale Shares as contemplated under the Acquisition Agreement having been obtained;
- (g) Approvals: all necessary approvals and consents required to be obtained by any member of the Target Group from any authority or other third party in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained unconditionally and irrevocably, or where such approval or consent is given subject to conditions, on such conditions as are acceptable to the Purchaser;
- (h) Compliance: the Vendor having complied with all its obligations under the Acquisition Agreement which are required to be complied with before Completion; and

LETTER FROM THE BOARD

- (i) No Material Adverse Effect: there has been, in the reasonable opinion of the Purchaser, no material adverse effect and no event, fact or matter has occurred or is likely to occur which may give rise to a material adverse effect.

Pursuant to the Acquisition Agreement, conditions (b), (e) and (f) cannot be waived.

As at the Latest Practicable Date, none of the conditions precedent to the completion of the Acquisition had been fulfilled.

Completion

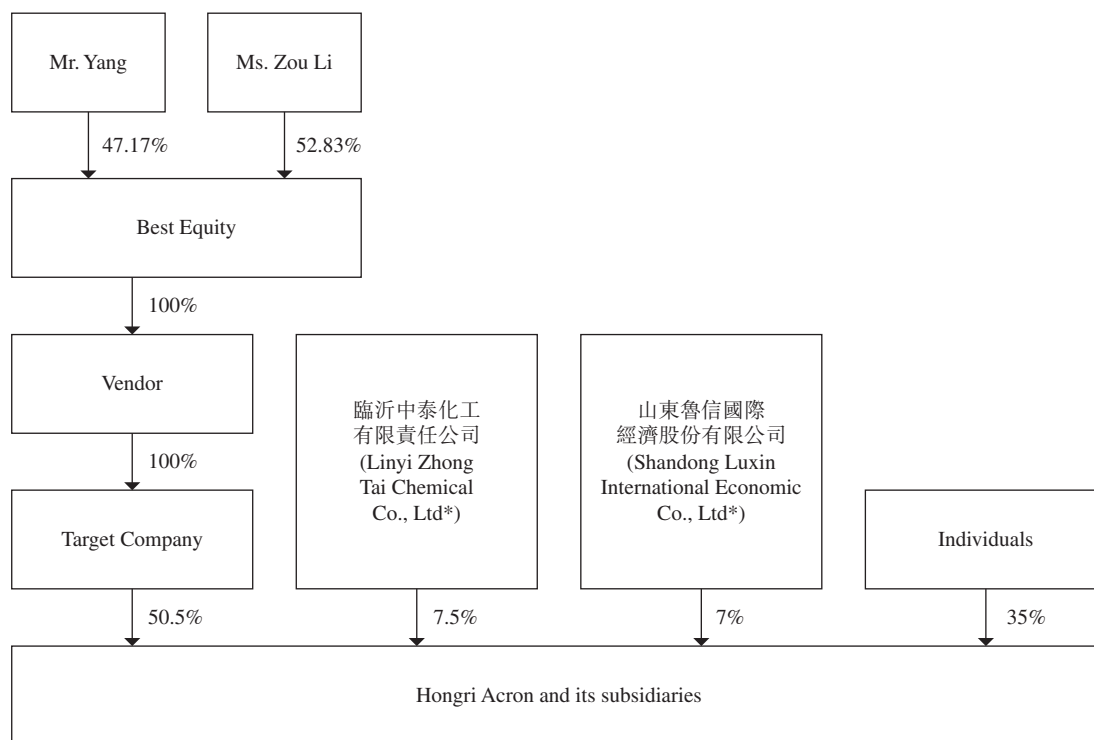
Completion shall take place on the fifth (5th) Business Day after all the conditions precedent to the Acquisition Agreement have been fulfilled (or waived, where applicable) to the satisfaction of the Purchaser or such other day which is a Business Day to be agreed in writing by the Vendor and the Purchaser.

Upon Completion, the Company will own the entire equity interest in the Target Company, and will indirectly own approximately 50.5% equity interest in Hongri Acron and each of Shandong Zhongfu, Linyi Luo Zhuang and Linyi Ding Rui. The financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group after Completion.

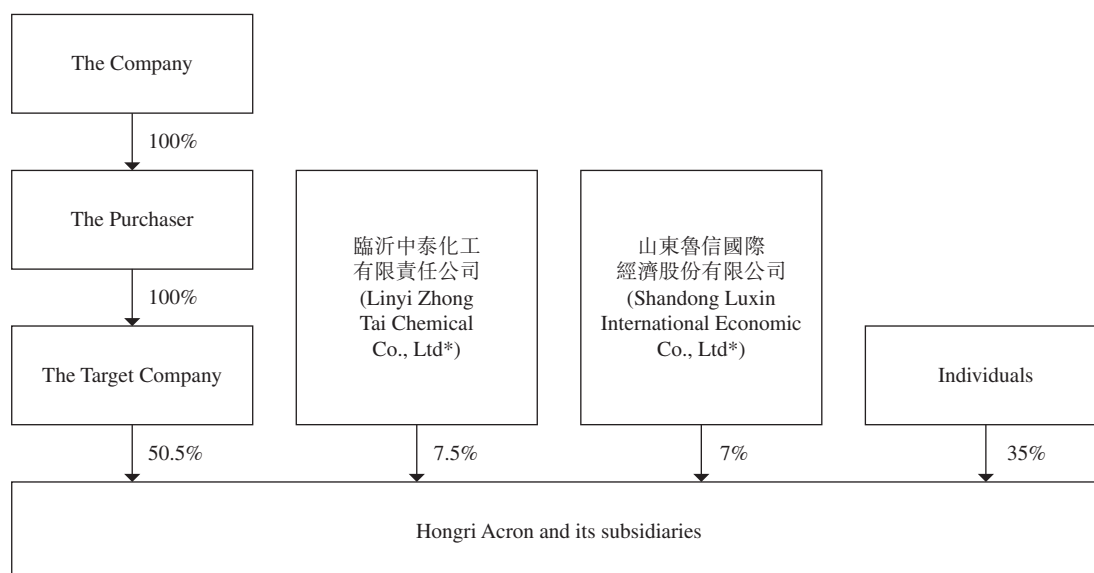
LETTER FROM THE BOARD

The following charts demonstrate the simplified shareholding structure of the Target Group (a) as at the Latest Practicable Date; and (b) immediately following Completion:

(a) As at the Latest Practicable Date



(b) Immediately following Completion



LETTER FROM THE BOARD

INFORMATION ON THE PARTIES

The Company and the Group

The principal business activity of the Company is investment holding and the Group is principally engaged in the fertilizer business, magnesium product business and metallurgical flux business.

The Purchaser

The Purchaser is an investment holding company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company.

The Vendor

Prosperous Rich Holdings Limited is an investment holding company incorporated in the BVI with limited liability. The Vendor is wholly-owned by Best Equity, a company owned as to 47.17% by Mr. Yang, who was a Director until 4 August 2016.

INFORMATION ON THE TARGET GROUP

The Target Company

The Target Company is a private company limited by shares and registered under the laws of the Republic of Cyprus. The principal activity of the Target Company is investment holding.

Hongri Acron and its subsidiaries

Hongri Acron is a joint stock limited liability company incorporated in the PRC and is principally engaged in the fertilizer business in the PRC. Hongri Acron is owned as to (i) 50.5% by the Target Company; (ii) 7.5% by 臨沂中泰化工有限責任公司 (Linyi Zhongtai Chemical Co., Ltd.*), an Independent Third Party; (iii) 7% by 山東魯信國際經濟股份有限公司 (Shandong Luxin International Economic Co., Ltd.*), an Independent Third Party; and (iv) 35% by individuals, who are, to the best knowledge of the Company, Independent Third Parties.

Hongri Acron, formerly known as Shandong Hongri Chemical Joint Stock Company, Ltd. (山東紅日化工股份有限公司), was established in 1965. In 2002, Acron Group, a renowned fertilizer producer in Russia and worldwide and whose shares are listed on both Moscow Exchange and the London Stock Exchange, invested in Hongri Acron. The Hongri Acron facility was one of the three production facilities of Acron Group in the world and mainly produced compound fertilizers for the PRC market.

Compound fertilizer is a kind of fertilizer with several mineral elements and nutrients that the crops require. In general, the primary elements contained in compound fertilizer are nitrogen (N), phosphorus (P) and potassium (K). Compound fertilizer can be used for fertilizer of many crops in China such as wheat, paddy rice, sweet corn, cotton, soybean and peanut. Compound fertilizer has balanced nutrient and high fertilizer efficiency, and also improves soil environment, crop quality, disease resistance and resistance of crop gene reverse function.

LETTER FROM THE BOARD

Hongri Acron's plant and production facilities are located at the premises in Linyi City, Shandong Province, the PRC with a total area of approximately 632,000 square metres. As at the Latest Practicable Date, it has in place 9 major production lines, for processing and production of compound fertilizers with aggregate annual production capacity of approximately 820,000 tonnes. Hongri Acron is one of the leading compound fertilizer producers in the PRC. Hongri Acron process 5 self-invented patents in relation to fertilizers production technology, which allow Hongri Acron to develop various types of compound fertilizers that combine high efficient sources of N, P and K and are suitable for different climates, soil types and planting practices in the PRC. In addition, its principal product brands, namely 艷陽天 (Yanyangtian*) and 東方紅 (Dongfanghong*) are known by growers in China for their consistent quality to improve crop quality and yield.

Due to branding and product quality of Hongri Acron, the market demand for its products are strong with sales volume of approximately 737,000 tonnes, 614,000 tonnes and 245,000 tonnes for the years ended 31 December 2014, 2015 and for the six months ended 30 June 2016 and the average selling prices of its products remained relatively stable at approximately RMB2,233, RMB2,246 and RMB2,112 for the respective years/period despite the overall decrease in the commodity prices in China in recent years. The decrease in sales volume for the year ended 31 December 2015 and for the six months ended 30 June 2016 was mainly due to the business interruption as disclosed in the below paragraphs headed "Business interruption — suspension of production in 2015 and temporary reduction of production capacity in 2016".

All the products of Hongri Acron are sold in China and the end customers are farmers and plantations. Currently, Hongri Acron sells its products through its own sales and marketing teams as well as third party distributors in China, covering 29 provinces and autonomous regions including Shandong, Hebei, Heilongjiang, Jilin, Liaoning and Inner Mongolia, etc.. Hongri Acron has approximately 200 sales professionals and an extensive sales distribution network, including 8 regional offices and 31 trade offices across China. It is also a common practice in the industry to sell products through a network of distributors due to their geographical proximity to the end customers.

Business interruption — suspension of production in 2015 and temporary reduction of production capacity in 2016

Hongri Acron had suspended production in March 2015 upon receiving the Suspension Notice (as defined below) after the environmental inspection of the industrial areas in Linyi City by the local authorities and gradually resumed full production from April 2015 to November 2015.

On 27 March 2015, Hongri Acron received the notice 《關於對山東紅日阿康化工股份有限公司實施停產治理的通知》(Notice regarding Suspension of Production of Hongri Acron*) issued by 羅莊區人民政府 (Luo Zhuang Qu People's Government*) to order Hongri Acron to suspend the production until the completion of examination and acceptance procedures in respect of the environmental and waste treatment improvements by the environmental authorities (the "Suspension Notice"). On 24 April 2015, 15 May 2015, 28 July 2015 and 23 November 2015, Luo Zhuang Qu People's Government issued 《關於同意山東紅日阿康化工股份有限公司複混肥、三廢爐試生產的通知》(Notice regarding the Consent

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of Trial Production of Compound Fertilizer and the Furnace of Three Wastes by Hongri Acron*), 《關於同意山東紅日阿康化工股份有限公司複合肥一分廠(1#-4#)、硫酸分廠和醇氨分廠試生產的通知》(Notice regarding the Consent of Trial Production of Compound Fertilizer Branch Factory (1#-4#), Sulfuric Acid Branch Factory and Ammonia Branch Factory of Hongri Acron*), 《關於同意山東紅日阿康化工股份有限公司複合肥一分廠(5#-6#)試生產的通知》(Notice regarding the Consent of Trial Production of Compound Fertilizer Branch Factory (5#-6#) of Hongri Acron*) and 《關於同意山東紅日阿康化工股份有限公司硫酸裝置開產的通知》(Notice regarding the Consent of Production Operation of the Sulfuric Acid Equipments*) respectively for the production resumption approval of Hongri Acron.

Based on the above notices issued by Luozhuang Qu People's Government, Hongri Acron submitted the environmental inspection and acceptance reports (the “**Inspection Reports**”) on 25 May 2015, 21 July 2015, 11 August 2015 and 4 December 2015 respectively to the relevant environmental authority but Hongri Acron has yet to receive any reply from the authority in respect of the Inspection Reports. Based on the discussion between the Company's PRC lawyers and Hongri Acron, Hongri Acron confirmed that there has been no further notice of suspension or environmental improvement from the Luozhuang Qu People's Government or other local governmental authorities since the submissions of the Inspection Reports by Hongri Acron.

Based on the advice from the PRC legal advisers, the relevant environmental authority may or may not issue a receipt of the Inspection Reports received and in practice, this could be understood as Hongri Acron shall face no major legal obstacle in production if (i) the Inspection Reports demonstrate that Hongri Acron fulfills the relevant environmental requirements and (ii) there is no further notice regarding the suspension from the local government or the aforesaid authority.

In early 2016, Hongri Acron decided to temporarily reduce production to approximately 20% of the plant capacity due to the lack of liquidity to maintain its operation following the said suspension. It is the Group's intention to procure Hongri Acron to resume full production as soon as possible and the Directors and the senior management of Hongri Acron have already formulated plans to resume the normal capacity of fertilizers production.

On 18 August 2016, Hongri Acron convened a ceremony, which was attended by the government officials of Linyi City and the Company, to mark the production resumption of Hongri Acron and it had since resumed its production capacity from about 40% on 18 August 2016 to about 60% as at the Latest Practicable Date. It is expected to return to approximately 70% to 80% of capacity utilization by the end of 2016 and full production in 2017 based on the production plans of Hongri Acron reviewed by the technical team of the Company. The Directors will continue to monitor the production progress of Hongri Acron and will conduct a review with senior management of Hongri Acron on the business activities of the Target Group for the purpose of formulating business plan and strategies for improving productivity as well as future business development of the Target Group upon Completion.

Based on the PRC legal opinion obtained by the Company, Hongri Acron has the necessary approval and permits for its business and Hongri Acron shall face no major obstacle in resuming its full production from the legal perspective.

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Expiration of Environmental Permits

As disclosed in the announcement dated 4 August 2016, it had come to the attention of the Directors during the Company's due diligence on the Target Group that some of the permits and licenses regarding the production and processing of fertilizers and the related materials, which include pollutants discharge permit and the production licenses of sulfuric acid and ammonia, both are raw materials for the production of the fertilizers, had expired.

(i) Pollutants discharge permit

Hongri Acron has obtained the pollutants discharge permit on 7 September 2016.

(ii) Production licenses of sulfuric acid and ammonia

The senior management of Hongri Acron advised the Company's legal advisers that Hongri Acron has applied to the relevant government authorities for the extension of the renewal application of the production licenses for sulfuric acid and ammonia due to the suspension of production of these materials. Hongri Acron has yet to receive any reply from the relevant authorities as at the Latest Practicable Date on its renewal application. As advised by the senior management of Hongri Acron, the production of these two materials has been suspended due to low cost effectiveness and these two materials are currently sourced from independent suppliers with lower cost than self production.

Sulfuric acid and ammonia together accounted for approximately 3.2% of the costs of goods for fertilizer products sold by Hongri Acron for the year ended 31 December 2015. As advised by Hongri Acron, it is more cost-effective to source these two materials from independent suppliers than self production. Subject to the review by the Directors on the cost effectiveness of the production of these two materials upon completion of the Acquisition, it is the intention of the Company and Hongri Acron to continue to source these two materials from independent suppliers irrespective of whether the valid licenses will be granted and the absence of the production licences would not cause any material impact to the resumption of the full plant capacity. The Group will ensure compliance with the relevant rules and requirements if Hongri Acron decides to resume production of these materials in the future.

As advised by Hongri Acron and to the best knowledge of the Directors, Hongri Acron has complied with the environmental regulation requirements for its current production operations.

Government relocation plan

The principal operation of Hongri Acron located in Linyi City may be affected by the relocation plan. On 2 July 2015, 臨沂市人民政府辦公室 (Linyi Municipal People's Government Office*) issued the Notice in respect of (A) the closure and relocation of (i) chemical companies which are within the city center and did not complete the formalities or comply with the environmental standards by the end of 2015; and (ii) chemical companies which are not within the planned industrial area and did not comply with the environmental, health and safety standards by the end of 2017; and (B) relocation of all chemical companies by 2020.

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Hongri Acron was originally listed as one of the companies to be relocated in 2016 but was later permitted to postpone its relocation, which is now scheduled to start in 2018 and to complete by 2020 pursuant to the 《臨沂市人民政府會議紀要》 (Minutes of Meeting of Linyi Municipal People's Government*) dated 16 October 2015.

Based on the legal opinion of the Company's PRC legal advisers, it is a common practice in the PRC for the government to negotiate with the affected entities regarding the relocation. Such proposed relocation will be then commenced based on the negotiation results and the relevant requirements. As confirmed by Hongri Acron, there was no discussion between Hongri Acron and the local government in respect of the relocation as at the Latest Practicable Date.

To the best knowledge of the Directors, (i) Hongri Acron intends to continue its principal operation in its current premises until and unless it has received a Relocation Order; (ii) Hongri Acron has not yet received any Relocation Order; and (iii) Hongri Acron is improving the environmental, health and safety standard of its production premises and will liaise with Linyi Municipal People's Government Office to obtain extension of the above relocation deadline from the Notice when the relocation negotiation commences.

In addition, the Directors noted that in accordance with the 《國有土地上房屋徵收與補償條例》 (Regulation on the Expropriation of Buildings on State-owned Land and Compensation*) issued by the State Council of the PRC in 2011, there will be compensation from the city and county people's governments to the affected entity and such compensation to be paid by the city and county people's governments to the affected entity shall include the compensation for (a) the value of the houses to be expropriated; (b) relocation and temporary resettlement arising from the house expropriation; and (c) losses arising from production and business suspension caused by the house expropriation. The Company will ensure that, subject to Completion, the Group would arrange for relocation of Hongri Acron's principal operation site including the fixed assets of Hongri Acron to other premises of the Group (i.e. the Group's production base in Jiangxi Province, the PRC) in the event that a Relocation Order is issued. As disclosed in the annual report of the Company for the year ended 31 December 2015, the Group intends to build a new production line with annual capacity of 1.4 million tonnes on its newly acquired land in Ruichang City, Jiangxi Province, the PRC in the next few years.

The relocation cost cannot be estimated precisely at the present time. However, given (i) it is a common practice for the government to negotiate with the affected entities regarding the relocation based on the legal opinion obtained by the Company; (ii) the local government has yet to commence negotiation with Hongri Acron and if the negotiation commences, Hongri Acron and the Directors will negotiate with the local government for the extension of the relocation deadline; (iii) Hongri Acron will assert its legal rights under the PRC law to have reasonable compensation for relocation from the government; and (iv) the Group is able to relocate Hongri Acron's business to the Group's expanded production base in Jiangxi Province, the PRC in the event of the receipt of the Relocation Order, the Directors considered that the relocation including the cost of relocation will not materially affect the operation and financial position of Hongri Acron and the Enlarged Group in long-term. The Directors believe that Hongri Acron is able to negotiate with the local government for the extension of relocation schedule.

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Subsidiaries of Hongri Acron

As at the Latest Practicable Date, Hongri Acron directly held 100% equity interests in each of Shandong Zhongfu, Linyi Luo Zhuang and Linyi Ding Rui.

Shandong Zhongfu is a limited liability company incorporated under the laws of the PRC which is principally engaged in the production and sales of fertilizers. Linyi Luo Zhuang is a limited liability company incorporated under the laws of the PRC which is principally engaged in property management service. Linyi Ding Rui is a limited liability company incorporated under the laws of the PRC which is principally engaged in the production and sales of land plaster and cement products.

Shandong Zhongfu is currently inactive and both Linyi Luo Zhuang and Linyi Ding Rui are in the process of deregistration.

FINANCIAL INFORMATION OF THE TARGET GROUP

(i) The Target Company

The Target Company is an investment holding company with no operation and material asset and liability.

(ii) Hongri Acron Group

The financial information, which is extracted from the consolidated financial statements of Hongri Acron Group prepared in accordance with the Hong Kong Financial Reporting Standards, for the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 is set out below:

	For the six months ended 30 June 2016 HK\$'000 (audited) (Approximate)	For the years ended 31 December 2015 HK\$'000 (audited) (Approximate)	31 December 2014 HK\$'000 (audited) (Approximate)
Revenue	466,475	1,779,527	2,146,724
Loss before income tax expense	135,864	133,530	34,259
Loss for the year/period	<u>135,864</u>	<u>133,531</u>	<u>34,261</u>

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	As at 30 June 2016 <i>HK\$'000</i> (audited) <i>(Approximate)</i>	As at 31 December 2015 <i>HK\$'000</i> (audited) <i>(Approximate)</i>	As at 31 December 2014 <i>HK\$'000</i> (audited) <i>(Approximate)</i>
Net current liabilities	686,975	579,799	398,270
Net assets/(liabilities)	<u>(87,022)</u>	<u>47,547</u>	<u>185,627</u>

To the best knowledge of the Directors, the accounting policies adopted by Hongri Acron in preparing the consolidated financial statements of the Hongri Acron Group as set out in Appendix II to this circular are consistent with the accounting policies adopted by the Group.

As advised by the management of Hongri Acron, the expected capital expenditure for the business of Hongri Acron for the year ending 31 December 2016 is estimated to be approximately RMB3,000,000, which is expected to be financed by internal resources.

Corporate guarantees

Based on the accountants' report of the Hongri Acron Group as set out in Appendix II to this circular, the Target Group recognised (i) loss on fair value of the corporate guarantees of approximately HK\$28,672,000 and HK\$67,556,000 for each of the year ended 31 December 2013 and 31 December 2014; and (ii) reversal of fair value loss of the corporate guarantees of approximately HK\$25,719,000 and HK\$21,884,000 for each of the year ended 31 December 2015 and the six months ended 30 June 2016. As at 31 December 2015 and 30 June 2016, the corporate guarantees were provided by Hongri Acron for each of 華盛江泉集團有限公司 (Huasheng Jiangquan Group Co. Ltd.*, "**Huasheng**") and its subsidiaries, namely, 臨沂燁華焦化有限公司 (Linyi Yehua Company Limited*, "**Linyi Yehua**") and 臨沂蒙飛商貿有限公司 (Linyi Mengfei Commercial Company Limited*, "**Linyi Mengfei**") and 臨沂美聯重工有限公司 (Linyi Meilian Zhonggong Co. Ltd.*, "**Linyi Meilian**"), all of which are Independent Third Parties and were introduced by banks to Hongri Acron.

As advised by Hongri Acron, as the banks in China usually request guarantees for the bank loans, Hongri Acron has acted as the guarantors for the banking facilities granted to some large independent companies in Linyi City and in return, such companies also guarantee the payment of loans under banking facilities granted to Hongri Acron. Based on the due diligence performed by the Company, both Huasheng and Linyi Meilian are large and reputable companies in Linyi City.

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Set out below are details of the corporate guarantees provided by Hongri Acron for Huasheng and Linyi Meilian as at the Latest Practicable Date.

	Principal Debtor	Guarantee Amount	Expiry Date
1	Huasheng	RMB41,000,000	19 July 2017
2	Huasheng	RMB50,000,000	5 November 2016
3	Huasheng	<u>RMB50,000,000</u>	19 March 2017
	Subtotal	<u>RMB141,000,000</u>	
4	Linyi Meilian	<u>RMB39,000,000</u>	12 November 2016
	Subtotal	<u>RMB39,000,000</u>	
	Total	<u>RMB180,000,000</u>	

The bank loans of Hongri Acron guaranteed by Independent Third Parties, including Huasheng and Linyi Meilian, amounted to RMB163,000,000 (equivalent to approximately HK\$190,351,000). As confirmed by Hongri Acron, apart from the above corporate guarantees, no other commercial arrangement or business relationship exists among the respective parties.

The Directors have reviewed and assessed the exposure of the corporate guarantees to Hongri Acron, including the review of the fair value assessment of the corporate guarantees performed by the independent valuer engaged by the Company, the fair value of the financial liabilities arising from the corporate guarantees was approximately HK\$48,625,000 as at 30 June 2016. In addition, the Directors noted that the corporate guarantees are valid for one year and subject to renewal.

The Directors have requested Hongri Acron to liaise with Huasheng and Linyi Meilian as well as the relevant banks regarding the possibility of the early termination of the corporate guarantees.

As advised by Hongri Acron, due to the current liquidity position of Hongri Acron, there is financial need of Hongri Acron to maintain the said guarantees for the financial support from Huasheng and Linyi Meilian in relation to the existing bank loans guaranteed by Huasheng and Linyi Meilian.

It is the intention of the Directors to restructure the loan portfolios, including the corporate guarantees provided or received by Hongri Acron, and the Directors has no intention to renew such guarantees upon expiry.

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Following Completion, with the assistance of the Group to procure Financial Assistance to finance the operations of Hongri Acron, the Directors will liaise with banks as well as Huasheng and Linyi Meilian for the release the corporate guarantees to reduce the exposure of such guarantees to the Enlarged Group.

In light of the above, the Directors considered the Acquisition is fair and reasonable taking into account the corporate guarantees provided by Hongri Acron. The fair value of the corporate guarantees for each respective year/period was determined with reference to the valuation performed by an independent professional valuer for the purpose of preparation of the Hongri Acron Group's accountants' report.

Assets impairment

Based on the accountants' report of the Hongri Acron Group as set out in Appendix II to this circular, the Hongri Acron Group reported impairment losses on property, plant and equipment of approximately HK\$201,213,000, HK\$5,721,000, HK\$3,014,000 and HK\$25,354,000 for the years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. The fair value of the Hongri Acron Group's property, plant and equipment for each respective year/period was determined with reference to the assets valuation performed by an independent professional valuer for the purpose of preparation of the Hongri Acron Group's accountants' report.

Based on the information available to the Directors, the impairment on property, plant and equipment was mainly provided for the obsolete assets following the suspension of production of methanol by Hongri Acron prior to year 2013.

Based on the information available to the Directors, Hongri Acron has restarted 6 out of the 9 production lines for compound fertilizers production since 18 August 2016 and up to the Latest Practicable Date, representing 60% of the total production capacity of Hongri Acron. It is expected to resume 70% to 80% of the production plant capacity by December 2016 in accordance with the current business plan of Hongri Acron. The Directors believes that there would be no need to have further impairment on property, plant and equipment based on the current production status and business plan of Hongri Acron.

Financial Position of Hongri Acron Group

The Hongri Acron Group reported loss of approximately HK\$202,794,000, HK\$34,261,000, HK\$133,531,000 and HK\$135,864,000 for each of the year ended 31 December 2013, 31 December 2014, 31 December 2015 and the six months ended 30 June 2016.

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, Hongri Acron Group's net current liabilities were approximately HK\$333,678,000, HK\$398,270,000, HK\$579,799,000 and HK\$686,975,000 respectively and it reported net liabilities of approximately HK\$87,022,000 as at 30 June 2016 as compared to net assets of approximately HK\$221,204,000, HK\$185,627,000 and HK\$47,547,000 as at each of 31 December 2013, 31 December 2014 and 31 December 2015.

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The Group performed due diligence in relation to the Acquisition, including:

- (i) analysed and evaluated the financial performance and financial position of the Target Group;
- (ii) reviewed the audited financial information of the Hongri Acron Group for the three years ended 31 December 2015 and the six months ended 30 June 2016 prepared by the auditors of the Company;
- (iii) reviewed and evaluated the legal opinion in relation to Hongri Acron prepared by PRC legal advisers engaged by the Company,
- (iv) reviewed constitutional documents, licences and permits of the Target Group;
- (v) conducted site visit of Hongri Acron and interview for its management;
- (vi) reviewed the management structure, business model and operation of the Target Group;
- (vii) deployed its own technical team to examine the production facilities and reviewed the resumption plan of the production of Hongri Acron; and
- (viii) reviewed the Inspection Reports prepared by qualified environmental inspectors with China Metrology Accreditation (中國計量認證) including 山東元通監測有限公司 (Shandong Yuantong Monitoring Co. Ltd*) and 山東君成環境檢測有限公司 (Shandong Juncheng Environmental Inspection Co. Ltd.*) regarding the compliance with relevant environmental standards by Hongri Acron.

The Directors are of the view that the consecutive losses for the three years ended 31 December 2015 and the six months period ended 30 April 2016 incurred by the Hongri Acron Group and the heavy indebtedness position were probably attributable to the inefficient corporate management and the business interruption in 2015 and 2016.

The Directors noted that (i) disregarding the impact of the above assets impairment and corporate guarantees, which were non-operational and non-recurring in nature, the Hongri Acron Group would have reported a profit of approximately HK\$27,091,000 and HK\$39,016,000 for each of year ended 31 December 2013 and 31 December 2014 and loss of approximately HK\$156,236,000 and HK\$132,394,000 for the respective year/period ended 31 December 2015 and 30 June 2016; (ii) the Hongri Acron Group reported gross profit of approximately HK\$280,620,000, HK\$256,290,000, HK\$102,202,000 and HK\$17,310,000 for the years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016 respectively; (iii) Hongri Acron incurred heavy financing for its investment in the production facilities in the past and has been facing severe cash and liquidity problems which have intensified due to the business interruption in 2015 and 2016.

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In addition, the Directors noted that some of the permits and licenses, including production licenses of sulfuric acid and ammonia, have currently expired and the government has issued a notice regarding the relocation of the current premises of Hongri Acron. The Directors considered that, based on the PRC legal opinion obtained by the Company, the discussion with management of Hongri Acron and the due diligence review on the business operations of Hongri Acron, Hongri Acron has all necessary licenses and permits in place for the current production and the government relocation plan would not cause material impact to the operations of Hongri Acron and the Enlarged Group as disclosed and explained in the above paragraphs headed “Expiration of Environmental Permits” and “Government Relocation Plan”.

The Directors consider that, based on the extensive management knowledge of the Directors and the management team, the Group is competent to raise the management standards and improve the cost structure of the Target Group by adopting the corporate and production management systems of the Group. In addition, Hongri Acron has gradually resumed its production operations and as part of the agreed terms of the Acquisition Agreement, the Group has nominated directors to sit on (and Hongri Acron has approved such appointments) the board of directors of Hongri Acron since 5 September 2016, the Group can effectively monitor the development progress of both the production and financial operations of Hongri Acron and formulate business plans and strategies together with management of Hongri Acron for the future business developments of the Enlarged Group.

Furthermore, pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to procure Financial Assistance for the Target Group. In addition, leveraging on the Group’s ability of effectively raising capital and its well maintained relationship with banks, the Group will adopt measures to adjust the loan structure of Hongri Acron following Completion, including but not limited to, renegotiate the existing terms of borrowings, liaise with banks and the principal debtors in order to reduce Hongri Acron’s exposure to the above corporate guarantees and/or conduct fund raising activities to finance the operations of Hongri Acron in order to lower the finance costs and improve the gearing position of Hongri Acron.

Given (i) the anticipated improvement in operational efficiency and liquidity of the business operations and increase in sales following the resumption of normal production; (ii) the synergies of combining the research and development, sharing customer base, sales network and other system functions, such as finance, administration and information technologies; and (iii) the reduced operating costs by improving the gearing position and enhancing the resources utilization ratio, it is expected that Hongri Acron will be able to turn around and achieve growth in its financial performance.

Based on the above, the Directors (including independent non-executive Directors, whose views are set out in the Letter from the Independent Board Committee) are of the view that, despite the net current liabilities and net liabilities position of the Target Group as at 30 June 2016, the Acquisition is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

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REASONS FOR AND BENEFIT OF THE TRANSACTIONS

In order to continue to expand the operating scale and enhance the growth of the fertilizer business of the Group, the Group intends to acquire an indirect 50.5% equity interest in Hongri Acron and its subsidiaries through the acquisition of the Sale Shares. The Board believes that the Acquisition is consistent with the development strategy of the Group, which can bring long-term strategic benefits to the Group including:

1. Satisfy the development strategy and positioning of the Group, which is beneficial to enhancing the competitive advantage of the Group's core business

The Group aims to develop its fertilizer business to the national forefront. To this end, the Group has been actively expanding its production scale and the annual capacity of the Group is expected to reach approximately 850,000 tonnes in 2016 through technology upgrade of existing production capacities. The Group also intends to build a new production line with annual capacity of about 1.4 million tonnes on its newly acquired land in Ruichang City, Jiangxi Province, the PRC in the next few years. In addition, it is the Group's strategy to seek for appropriate mergers and acquisition opportunities so as to accelerate the growth of its fertilizer business.

Hongri Acron is a well-established and leading fertilizer producer in the PRC with an annual production capacity of compound fertilizers of approximately 820,000 tonnes. Hongri Acron has a stable business model and over 50 years of proven track record in manufacturing and sales of fertilizers since its establishment in 1965 (as formerly known as Shandong Hongri Chemical Joint Stock Company, Ltd. (山東紅日化工股份有限公司)). In addition, Hongri Acron has a strong and experienced technical team in fertilizer production and R&D and it possesses a total of 5 self-invented patents in relation to the fertilizer production technology as at Latest Practicable Date.

Despite the current financial and business position of Hongri Acron as disclosed in paragraph headed "Information of the Target Group" in this circular, by virtue of Hongri Acron's industry experience accumulated over the years, its industry wide recognition and its strong product portfolio, Hongri Acron has maintained its competitiveness in the fertilizer market in the PRC and received positive recognition of its renowned brand names and solid foundation in the fertilizer business in the PRC. It ranked 375th among China Top 500 Chemical Industrial Enterprises in 2016 and ranked 75th among China Top 100 Fertilizer Corporations in 2015.

The Company considers that it is appropriate to financially support the Target Group by way of provision of Financial Assistance for the Target Group's fertilizer business for the purpose of the Acquisition. The Company considers that the provision of Financial Assistance will enhance the liquidity of the Target Group and facilitate the resumption of full plant capacity of Hongri Acron and thus, improve the financial performance of the Target Group.

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Hongri Acron has resumed its production capacity to approximately 60% as at the Latest Practicable Date and it is expected that, by the end of 2016, Hongri Acron is able to utilise 70% to 80% of its production capacity and upon Completion, the operations of Hongri Acron will greatly enhance the Group's operating scale and competitiveness in the PRC fertilizer market.

The Company believes that, the Acquisition demonstrates the Group's development strategy and positioning in further expansion of its production scale. Leveraging on the Group's established platform in the PRC fertilizer business, its well maintained relationship with local governments, business and banks, the Acquisition is expected to expedite the integration of the Group's core business and provide synergy that enables the Group to capture new opportunities in the fertilizer business and enhance its revenue stream.

2. Broaden the Group's products offering with the strong 艷陽天 (Yangyangtian*) and 東方紅 (Dongfanghong*) brand names

The Hongri Acron Group has products sold under more than 10 different brands and contributed revenue of approximately HK\$2,658,737,000, HK\$2,146,724,000 and HK\$1,779,527,000 for each of the year ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively. Among the product brands owned by Hongri Acron, 艷陽天 (Yangyangtian*) and 東方紅 (Dongfanghong*) are renowned compound fertilizer brands in the PRC and are highly praised for its quality of improving soil fertility and enhancing crop quality.

For the years ended 31 December 2014 and 2015, the total products sold under the brands of 艷陽天 (Yangyangtian*) and 東方紅 (Dongfanghong*) were approximately 541,000 tonnes and 443,000 tonnes respectively, representing approximately 73% and 72% of the total compound fertilizers sold by Hongri Acron for each of the year ended 31 December 2014 and 2015.

The Company believes that the wide recognition and popularity of the brands owned by Hongri Acron will expand the Group's brand influence as well as reinforcing the Group's strategy of broadening the Group's product offerings and increasing its market share in the fertilizer industry in the PRC.

3. Benefit from the strong distribution network of Hongri Acron

Hongri Acron has extensive distribution network, which includes 8 regional offices and 31 trade offices, covering approximately 29 provinces and autonomous regions in the PRC. It has a marketing team of more than 200 sales personnel with in-depth knowledge and expertise in the fertilizer production industry. The Company believes that the Group can achieve synergies by sharing customer base and sales network to further strengthen the Group's market coverage and penetration, expand the Group's distribution network and enhance its product supply across China.

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4. Favorable policies of the Chinese government

According to the statistics from National Bureau of Statistics of China, the consumption volume (measured at volume of effective components) of compound fertilizers increased from approximately 17.98 million tonnes in 2010 to approximately 21.16 million tonnes in 2014, representing a compound annual growth rate of about 3.31%. In addition, pursuant to the “Guidance on Prompting the Restructuring and Development of Fertilizer Industry (推進化肥行業轉型發展的指導意見)” issued by Ministry of Industry and Information Technology (工業和信息化部) of the PRC on 20 July 2015, which encourages eco-friendly agriculture and the utilization of the environment-friendly fertilizers, the utilization of the new type of fertilizers, including compound fertilizers in China will increase from less than 10% at present to 30% by 2020. The Company believes that, given the favorable agricultural policies of the Chinese government and the increasing awareness on industrial efficiency and environmental protection, the demand for compound fertilizers in China would maintain the rising momentum.

Accordingly, the Directors (including the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee) are of the view that the Transactions are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Company will own the entire equity interest in the Target Company, and will indirectly own approximately 50.5% equity interest in Hongri Acron and each of Shandong Zhongfu, Linyi Luo Zhuang and Linyi Ding Rui. The financial results of the Target Group will be consolidated into the financial statements of the Company upon Completion. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, upon completion of the Acquisition, the consolidated total assets of Enlarged Group would have been increased to HK\$7,044,072,000 and the consolidated liabilities of the Enlarged Group would have been increased to approximately HK\$3,714,255,000. In addition, a gain from bargaining purchase arising from the Acquisition of approximately HK\$93,835,000 would be recognised as if the Acquisition had been completed on 30 June 2016.

For the purpose of the unaudited pro forma financial information as set out in Appendix III to this circular, the Board has considered the intangible assets associated with the acquisition in accordance with HKAS 36 “Impairment of Assets”. Based on the information available to the Directors, in particular the valuation performed by an independent valuer (please refer to page III-7 as set forth in Appendix III to this circular), the Board considered that there is no indication of impairment of intangible assets arising from the Acquisition on the date of the Acquisition to be assumed to be completed on 30 June 2016.

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Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, shareholders should note that the unaudited pro forma financial information has been prepared for illustrative purpose only based on the judgements and assumptions of the Directors, and because of its hypothetical nature, it may not give the true picture of the financial position of the Enlarged Group following Completion or any future date. Moreover, since the actual fair value of the assets and liabilities of the Target Group may be different at Completion as compared to their respective values used in the preparation of the unaudited pro forma financial information of the Enlarged Group, the actual financial effects of the transaction may be different from the financial information shown in Appendix III to this circular.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Transactions exceed 25% but are less than 100%, the Transactions constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Vendor is a wholly-owned subsidiary of Best Equity, a company owned as to 47.17% by Mr. Yang and 52.83% by Ms. Zou Li. Best Equity was interested in 309,914,999 Shares, representing approximately 6.74% of the issued share capital of the Company as at the Latest Practicable Date. Ms. Zou Li was deemed to be interested in 309,914,999 Shares, representing approximately 6.74% of the issued share capital of the Company, held by Best Equity by virtue of her holding of 52.83% of the issued share capital of Best Equity as at the Latest Practicable Date. Mr. Yang was interested in 346,844,434 Shares (including his interest in Best Equity and his spouse's interest of 36,929,435 Shares) representing approximately 7.54% of the issued share capital of the Company as at the Latest Practicable Date. Since Mr. Yang, who was a Director until 4 August 2016, indirectly owns 47.17% equity interest in the Vendor and is the sole director of the Vendor, the Vendor is an associate of Mr. Yang and therefore a connected person of the Company. Accordingly, the Transactions also constitute a connected transaction under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Yang has abstained from voting on the relevant Board resolutions in relation to the Transactions. In addition, Mr. Yang, Ms. Zou Li and their respective associates are required to abstain from voting on the resolutions approving the Acquisition Agreement and the Transactions at the EGM.

EGM

The Company will convene the EGM at Unit 2605, 26th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong on 19 October 2016 (Wednesday) at 2:30 p.m. to consider and if thought fit, to approve the Acquisition Agreement and the Transactions. The notice of EGM is set out on pages EGM-1 to EGM-2 of this circular. The voting on such resolutions will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

LETTER FROM THE BOARD

A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed on the form and return the form to the office of the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment of EGM in person should you so wish.

Any Shareholders or their respective associates with a material interest in the relevant transactions under the Acquisition Agreement are required to abstain from voting at the EGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, Mr. Yang, Ms. Zou Li and their respective associates held and controlled the voting rights of 346,844,434 Shares, representing in aggregate approximately 7.54% of the issued share capital of the Company. Mr. Yang and Ms. Zou Li and their respective associates are required to abstain from voting on the resolution(s) approving the Acquisition Agreement and the Transactions.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee dated 27 September 2016 set out on pages 31 to 32 of of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition Agreement and the Transactions; and (ii) the letter from the Independent Financial Adviser dated 27 September 2016 as set out on pages 33 to 52 of this circular which contains the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition Agreement, the Transactions and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation.

Having taken into account the factors and reasons considered, and the opinion of the Independent Financial Adviser as stated in its letter, the Directors (including the independent non-executive Directors, as the members of the Independent Board Committee in respect of the Transactions, who have indicated their recommendation in their letter to the Independent Shareholders) consider the terms of the Acquisition Agreement and the Transactions are fair and reasonable, are on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and accordingly, recommend the Independent Shareholders vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the Transactions.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Century Sunshine Group Holdings Limited
Chi Wen Fu
Chairman



世紀陽光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

27 September 2016

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION IN RESPECT OF
THE PROPOSED ACQUISITION OF 50.5% EQUITY INTEREST
IN SHANDONG HONGRI ACRON CHEMICAL
JOINT STOCK COMPANY, LTD
AND
PROVISION OF FINANCIAL ASSISTANCE**

We refer to the circular dated 27 September 2016 (the “**Circular**”) despatched to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Acquisition Agreement and the Transactions are fair and reasonable, the Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole and how to vote on the Transactions. TC Capital International Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the Transactions.

We wish to draw your attention to the letter from the Board set out on pages 6 to 30 of the Circular and the letter from the Independent Financial Adviser containing its advice to us and the Independent Shareholders regarding the terms of the Acquisition Agreement and the Transactions set out on pages 33 to 52 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE
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Having considered the advice given by the Independent Financial Adviser, we are of the opinion that the terms of Acquisition Agreement and the Transactions are fair and reasonable; the Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreement and the Transactions.

Yours faithfully,
For and on behalf of

Independent Board Committee

Mr. Sheng Hong

Mr. Kwong Ping Man
Independent non-executive Directors

Mr. Lau Chi Kit

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from TC Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, prepared for the purpose of inclusion in this circular



27 September 2016

The independent Board Committee and the Independent Shareholders

Century Sunshine Group Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF 50.5% EQUITY INTEREST IN SHANDONG ACRON CHEMICAL JOINT STOCK COMPANY, LTD AND PROVISION OF FINANCIAL ASSISTANCE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 27 September 2016 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 3 August 2016, Long Xiang Enterprises Limited (the “**Purchaser**”), a direct wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Prosperous Rich Holdings Limited (the “**Vendor**”) and Acronagrotrans Ltd. (the “**Target Company**”), pursuant to which, the Purchaser conditionally agreed to buy, and the Vendor conditionally agreed to sell the entire equity interest in the Target Company, at the cash consideration of US\$1 (equivalent to approximately HK\$7.76), which is payable in accordance with the terms and conditions thereto. Pursuant to the Acquisition Agreement, the Purchaser also agreed to use reasonable efforts to provide assistance to the Target Company and its subsidiaries (the “**Target Group**”) to obtain financing from banks and financial institutions and/or to provide any form of guarantee or securities in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$292,500,000) for the working capital of Hongri Arcon Group’s fertilizer business (the “**Provision of Financial Assistance**”).

Upon Completion, the Company will own the entire equity interest in the Target Company, which will in turn own approximately 50.5% in Shandong Hongri Acron Chemical Joint Stock Company Ltd. (“**Hongri Acron**”), which owns the entire interest of Shandong Zhongfu Compound Fertilizers Company Limited (“**Shandong Zhongfu**”), Linyi City — Luo

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Zhuang Qu Antai Real Estate Service Company Limited (“**Linyi Luo Zhuang**”) and Linyi Ding Rui Construction Materials Company Limited (“**Linyi Ding Rui**”) (altogether as “**Hongri Acron Group**”).

As the Acquisition Agreement involves the Acquisition and the Provision of Financial Assistance, the Acquisition and the Provision of Financial Assistance are aggregated for the purpose of classification of transaction in according with Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition and the Provision of Financial Assistance, exceed 25% but are less than 100%, the Acquisition and the Provision of Financial Assistance constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The Vendor is a wholly-owned subsidiary of Best Equity Holdings Limited (“**Best Equity**”), a company owned as to 47.17% by Mr. Yang and 52.83% by Ms. Zou Li. Best Equity was interested in 309,914,999 Shares, representing 6.74% of the issued share capital of the Company as at the Latest Practicable Date. Ms. Zou Li was deemed to be interested in 309,914,999 Shares, representing approximately 6.74% of the issued share capital of the Company, held by Best Equity by virtue of Ms. Zou Li’s holding of 52.83% of the issued share capital of Best Equity as at the Latest Practicable Date. Mr. Yang was interested in 346,844,434 Shares (including his interest in Best Equity and his spouse’s interest of 36,929,435 Shares), representing approximately 7.54% of the issued share capital of the Company as at the Latest Practicable Date. Since Mr. Yang, who was a Director until 4 August 2016, indirectly owns 47.17% equity interest in the Vendor and is the sole director of the Vendor, the Vendor is an associate of Mr. Yang and therefore a connected person of the Company. Accordingly, the Acquisition and the Provision of Financial Assistance also constitutes a connected transaction under Chapter 14A of the Listing Rules and is subject to Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Mr. Yang has abstained from voting on the relevant board resolutions of the Company in relation to the Acquisition and the Provision of Financial Assistance. In addition, Mr. Yang, Ms. Zou Li and their respective associates are required to abstain from voting on the resolutions approving the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kwong Ping Man, Mr. Sheng Hong and Mr. Lau Chi Kit, has been established to advise the Independent Shareholders as to (i) whether the execution of the Acquisition Agreement is in the ordinary and usual course of the business of the Group, (ii) whether the execution of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and (iii) whether the terms of the Acquisition Agreement is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Our role as the Independent Financial Adviser is to provide independent opinion and recommendation to the Independent Board Committee and Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, TC Capital International Limited, are independent of and not connected with any members of the Group or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Transactions and we did not act as independent financial adviser to the Company's other transactions in the last two years.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Acquisition Agreement; (ii) the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”); (iii) the accountants' report of Hongri Arcon Group for each of the three years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016 (the “**Hongri Arcon Group's Accountants' Report**”); and (iv) other information as set out in the Circular. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company.

We have assumed that all such information, opinions, facts and representations, for which the Company, the Directors and the management of the Company are fully responsible, were true, accurate and complete in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out independent verification of the information, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of each of the Company, the Purchaser, the Vendor and the Target Company and any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Acquisition Agreement, we have taken into consideration the following principal factors and reasons:

I. BACKGROUND OF AND REASONS FOR ENTERING INTO OF THE ACQUISITION AGREEMENT

1. Background information of the Company, the Purchaser, the Vendor and Hongri Arcon Group

(a) The Company and the Purchaser

The Company and its subsidiaries are principally engaged in fertilizer business, magnesium product business, metallurgical flux business and electronic product business. According to the 2015 Annual Report, fertiliser business is the major operating segment of the Group and contributed approximately 60.6% of the total revenue of the Group for the year ended 31 December 2015. The Purchaser is a company incorporated in the British Virgin Islands with limited liability and is a direct wholly-owned subsidiary of the Company and its main business is investment holding.

(b) The Vendor, the Target Company and Hongri Arcon Group

The Vendor is a company incorporated in the British Virgin Islands with limited liability and the main business is investment holding. The Vendor is wholly owned by Best Equity which is owned as to 47.17% by Mr. Yang, who was a Director until 4 August 2016.

The Target Company is a private company limited by shares and registered under the laws of the Republic of Cyprus. The principal activity of the Target Company is investment holding and is currently holding 50.5% of Hongri Acron.

Hongri Acron is a joint stock limited liability company incorporated in the PRC and is principally engaged in the fertilizer business in the PRC. Hongri Acron is owned as to (i) 50.5% by the Target Company; (ii) 7.5% by 臨沂中泰化工有限責任公司 (Linyi Zhongtai Chemical Co., Ltd.), an Independent Third Party; (iii) 7% by 山東魯信國際經濟股份有限公司 (Shandong Luxin International Economic Co., Ltd.), an Independent Third Party; and (iv) 35% by individuals, who are, to the best knowledge of the Company, the Independent Third Parties.

Since majority of the Group's revenue is generated from fertilizer business, we are of the view that the acquisition of the Target Company, which holds 50.5% of Hongri Acron and is principally engaged in the fertilizer business, is therefore in the ordinary and usual course of the business of the Group.

2. Reasons for entering into the Acquisition Agreement

Referring to the Letter from the Board, the principal reasons for the Group to enter into the Acquisition Agreement can be summarized below:

- a. To benefit from strong outlook of the PRC compound fertilizer industry
- b. To expand the Group's operating scale and its fertilizer business
- c. To take advantage from the future turnaround of the current operational difficulties and financial distress of Hongri Acron

Based on the below findings and analysis, we are of the view that the above reasons considered by the Group to enter into the Acquisition Agreement are justified and the execution of the Acquisition Agreement is therefore in the interests of the Company and the Shareholders as a whole.

a. To benefit from strong outlook of the PRC compound fertilizer industry

As set out in the Letter from the Board, according to the statistics from National Bureau of Statistics of China, the consumption volume (measured at volume of effective components) of compound fertilizers increased from approximately 17.98 million tonnes in 2010 to approximately 21.16 million tonnes in 2014, representing a compound annual growth rate (“**CAGR**”) of about 3.31%. Pursuant to the “Guidance on Prompting the Restructuring and Development of Fertilizer Industry (推進化肥行業轉型發展的指導意見)” issued by Ministry of Industry and Information Technology (工業和信息化部) of the PRC on 20 July 2015, eco-friendly agriculture and the utilization of the environment-friendly fertilizers is encouraged and therefore the utilization of the new type of fertilizers, including compound fertilizers in China will increase.

We principally concur with the findings presented by the Board above based on the analysis as below.

According to the research report titled “China Compound Fertilizer Sector” published on 4 May 2016 by Citi Research, a division of Citigroup Global Markets Inc., which based in New York, United States and provides investment banking and financial advisory services (the “**Research Report**”) (source: <https://www.citivelocity.com/>), the outlook of PRC compound fertilizer industry is expected to remain strong given the penetration of compound fertilizer in China is expected to continue to rise. According to the Research Report, demand for compound fertilizers in China has grown at a CAGR of 4.1% from 2010 to 2015 despite flattish growth of overall fertilizers. Although the penetration of compound fertilizer has risen to about 35% in 2015 from about 27% in past 10 years, it is still lower than about 50% of the global average and about 80% of developed countries. The Research Report concluded that the compound fertilizer penetration in China shall continue to rise in the long term driven by the following trends:

Growing popularity of eco-friendly fertilizer prescription

China's fertilizer industry has been characterized as using an over-dosage of fertilizers (especially nitrogen), which has reduced soil fertility and crop yields, and caused environmental damage to farmland, especially in terms of water pollution. Compound fertilizers contain lower nitrogen content (15–25% vs. 46% of single nitrogen fertilizer). Application of compound fertilizers will provide more balanced nutrients to crops, enhance soil fertility, increase nutrient use efficiency and improve crop yields. Furthermore, the Ministry of Agriculture (“**MoA**”) is also promoting fertilizer prescription nationwide, which involves soil testing, assessment of nutrient requirements of plants, and development of fertilizer products that are customized to the specific soil conditions and a plant's nutrient needs. Major compound fertilizer players are also increasingly offering free soil tests and fertilizer prescription services to farmers for the purpose of increasing brand awareness and expanding their customer base. The MoA's initiatives and increasing competition among major compound fertilizer players will continue to drive the penetration and demand growth of compound fertilizer.

Growing plant area of cash crops

Unit consumption of compound fertilizers for cash crops (i.e. a readily salable crop that is grown and gathered for the market (as vegetables or cotton or tobacco)) is typically higher than that for food crops (i.e. a produce of food which have commercial value and are staple food) because (i) cash crops have higher nutrient needs; (ii) cash crops have higher economic value and could justify higher spending; (iii) farmers of cash crops have higher affordability and have the tendency of more rational fertilization application (i.e., apply more compound fertilizer). Given the plant area of cash crops in China had been growing at a steady rate from approximately 55 million hectare in 2010 to approximately 59 million hectare in 2014, the demand for compound fertilizers shall remain strong.

Farmland transfer

The total farmland area transferred in China increased by a CAGR of about 28% from 2008 to 2014. Farmland transfer allows farmers to rent the farmland from other farmers, driving large-scale farming in China. The farmers have a more rational fertilizer application pattern and are more financially capable of applying compound fertilizers, which is positive for compound fertilizer demand.

Based on the findings of the Research Report, we believe the outlook of the PRC compound fertilizer industry shall remain strong in future and we are therefore also of the view that by the Acquisition and resulting expansion of the Group's fertiliser business (please refer to below for more

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

details on how the Acquisition expand the Group's fertiliser business), the Group will be able to benefit from the strong demand of compound fertilizer in PRC and enhance its revenue stream in the future.

b. To expand the Group's operating scale and its fertilizer business

As set out in the Letter from the Board, the Group is of the view that the Acquisition can further expand the Group's existing operating scale and its fertilizer business by (i) increasing its production capacity, (ii) extending its sales network, and (iii) broadening its products and brand portfolio. We principally concur with the Board's view based on the below analysis:

Increase in production capacity

According to the 2015 Annual Report, the Group's annual production capacity of its production base of Jiangsu Province is expected to reach 850,000 tonnes in 2016. We noted the current need of the Group in expanding its fertilizer business. For instance, according to the 2015 Annual Report, the Group intended to build a fertilizer production line in Jiangxi with an annual capacity of 1.4 million tonnes of Si-Mg compound fertilizer, water-soluble fertilizer and other new fertilizer products. Nevertheless, we noted that the first phase of such production line with an annual capacity of 800,000 tonnes and the second phase with an annual capacity of 600,000 tonnes can only be completed in 2018 and 2019 respectively the earliest.

As stated in the Letter from the Board, Hongri Acron's plant and production facilities are located at the premises in Linyi City, Shandong Province and it has in place 9 major production lines for processing and production of compound fertilizers with aggregate annual production capacity of approximately 820,000 tonnes.

To effectively capture the upcoming strong industry outlook, we are of the view that the Acquisition can immediately expand the Group's operation scale and market presence in a quick and efficient way instead of relying on its own organic growth for expansion. In addition, the Acquisition shall further solidify the Group's fertiliser business position in eastern-central coastal province of China.

Extension of sales network

As set out in the Letter from the Board, the Company believes that the Group can achieve synergies by sharing customer base and sales network to further strengthen the Group's market coverage and penetration, expand the Group's distribution network and enhance its product supply across China.

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We have obtained and compared the top 5 customers list of the Group's fertilizer business and that of Hongri Acron. We noted that the top 5 customers of the Group's fertilizer business mainly covers provinces of Shandong and Fujian while the top 5 customers of Hongri Acron mainly covers Inner Mongolia, Jilin and Hebei provinces. Given such non-overlapping client base, we are therefore concur with the Board's view that the Acquisition can further expand the Group's market coverage and penetration with the additional customer base and enhance its revenue stream going forward.

Broadening products and brand portfolio

As set out in the Letter from the Board, the Company believes that, by the Acquisition, the wide recognition and popularity of the brands owned by Hongri Acron will further expand the Group's brand influence as well as reinforcing the Group's strategy of broadening the Group's product offerings and increasing its market share in the fertilizer industry in the PRC.

According to the Company's website, the Group principally sells organic and compound fertilizers through its house labels "Lu Di", "Le He He", "Zhan Lan", and "Feng Shou". As discussed with the management of the Company, the Group pursues its business strategies on: (a) soil testing, (b) evaluation of plant required nutrition; and (c) developing customized fertilizer for particular soil and plant nutrition. It becomes a niche market of the Group and contributes to development of new customers. The Directors consider that providing such services will differentiate the Group's products from other fertilizers producers and attract more customers.

As set out in the Letter from the Board, Hongri Acron's products are sold under more than 10 different brands with two particular brands 艷陽天 (Yangyangtian*) and 東方紅 (Dongfanghong*) which represented approximately 73% and 72% of the total compound fertilizers sold by Hongri Acron for each of the year ended 31 December 2014 and 2015. Also, Hongri Acron has extensive experience in production and research and development in fertilizer and it possesses a total of 5 self-invented patents in relation to the fertilizer production technology as at the Latest Practicable Date.

As such, having considered (i) the synergy of the combination of the aforesaid customized fertiliser products offered by the Group and the self-invented patents in relation to the fertilizer production technology and talents owned by Hongri Acron; and (ii) the acquisition of the famous products of 艷陽天 (Yangyangtian*) and 東方紅 (Dongfanghong*), we therefore concur with the Board's view that the Acquisition can further

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reinforcing the Group's strategy of broadening the Group's product offerings, improving the quality of the products of the Group and increasing its market share in the fertilizer industry in the PRC.

c. To take advantage from the future turnaround of the current operational difficulties and financial distress of Hongri Acron

As set out in the Letter from the Board, we observed that Hongri Acron is currently facing below operational difficulties and financial distress:

- (i) Suspension of production in 2015 and temporary reduction of product capacity in 2016
- (ii) Expiration of pollutants discharge permit before 7 September 2016
- (iii) Expiration of production licenses of sulfuric acid and ammonia
- (iv) Government relocation plan
- (v) Net loss and net current liabilities position

Based on the below analysis, we believe the above operational difficulties and financial distress of Hongri Acron are short term in nature and could be rectified in a foreseeable future and therefore imposed insignificant impact on the Group after the Acquisition.

(i) Suspension of production in 2015 and temporary reduction of product capacity in 2016

As set out in the Letter from the Board, on 27 March 2015, Hongri Acron received the notice 《關於對山東紅日阿康化工股份有限公司實施停產治理的通知》(Notice regarding the Implementation Suspension of Production and Management Control of Hongri Acron*) issued by 羅莊區人民政府 (Luo Zhuang Qu People's Government*) to order Hongri Acron to suspend the production until the completion of examination and acceptance procedures in respect of the environmental and waste treatment improvements by the environmental authorities (the "Suspension Notice"). In which, Luo Zhuang Qu People's Government required Hongri Acron to comply with the rules of maximum emission concentration threshold of atmospheric particulate matters. During the period from April 2015 to November 2015, Luo Zhuang Qu People's Government issued 4 notices for the production resumption approval of Hongri Acron. For the details of such notices, please refer to the Letter from the Board. As stated in the Letter from the Board, Hongri Acron submitted the environmental inspection and acceptance reports ("Inspection Reports") on 25 May 2015, 21 July 2015, 11 August 2015 and 4 December 2015 respectively to the relevant environmental authority but Hongri Acron has yet to receive any reply from the authority in respect of the Inspection Report. Hongri Acron

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also confirmed that there has been no further notice of suspension or environmental improvement from the Luozhuang Qu People's Government or other local governmental authorities since the submission of the said environment report by Hongri Acron. Based on the advice from the PRC legal advisors, the relevant environmental authority may or may not issue a receipt of the reports received and in practice, this could be understood as Hongri Acron shall face no major legal obstacle in production if (i) the Inspection Reports fulfill the relevant environmental requirements and (ii) there is no further notice regarding the suspension from the local government or aforesaid authority. In addition, having consider that (i) the pollutants discharge permit has been renewed which indicate that Hongri Arcon Group has complied with the relevant environment requirements of the local government and (ii) the PRC legal opinion stated that Hongri Arcon Group has the necessary approval and permits for its business, we are therefore of the view that Hongri Arcon Group shall face no major obstacle in resuming its full production in legal perspective.

In early 2016, Hongri Acron decided to temporarily reduced production to approximately 20% of the plant capacity due to the lack of liquidity to maintain its operation. On 18 August 2016, Hongri Acron has resumed its production capacity to about 40% and is expected to return to approximately 70% to 80% of capacity utilization by the end of 2016 and full production in 2017. It's further stated that the Directors will conduct a review with senior management of Hongri Acron on the business activities of Hongri Arcon Group for the purpose of formulating business plan and strategies to procure Hongri Acron to resume full production as soon as possible. As discussed with the management of the Company, the temporary shutdown of some production lines was mainly due to the lack of financial resources. Thus, the provision of financial assistance to Hongri Acron will help it secure the funding to purchase the raw materials from various suppliers to resume production gradually and Hongri Acron will continuously seek new customers to buy those products after the commencement of resumption of production. As such, we are of the view that it is reasonable that Hongri Acron targets to resume 70% to 80% production in 2016 and 100% in 2017.

We have also examined the biography of the Directors and senior management team of the Group and believe they are well experience in the fertiliser industry and therefore of the view that the Group are capable for formulating suitable business plan and strategies to procure Hongri Acron to resume full production. According to the 2015 Annual Report, set out below the relevant fertilizer/agricultural related experience of the Group's Directors and senior management team.

CHI Wen Fu, the Chairman of the Group, originated an initial research on organic agricultural production and funded a R&D project on microbial compound fertilisers in early 1998.

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HU Jie, the responsible person for the agricultural fertiliser business of the Group, has over 20 years of experience in the fertiliser and mechatronics industries. He was the Head of fertiliser factory of Century Sunshine Jiangsu Co., Ltd. (世紀陽光江蘇公司) as well as the General Manager of the production technology department.

ZHOU Jianhui, the responsible person for the safety environment management of the Group, majored in agriculture with over 20 years of experience in mining and agricultural fertilisers industries. Prior to joining the Group, he was the Deputy Manager of Jiangsu Le He He Fertiliser Company Limited, and the Head of Fertiliser factory of Jiangsu Longteng Petrochemical Company Limited.

Given the strong experience in agriculture and fertilizer industry of the Directors and senior management of the Group as described above, we concur with the Board's view that the Group can effectively formulate business plan and strategies to procure Hongri Acron to resume its full production as soon as possible.

Please refer to below subsection headed "Net loss and net current liabilities position" for the analysis on how the Group assist Hongri Arcon Group to resolve its current liquidity problem.

(ii) Expiration of pollutants discharge permit before 7 September 2016

As set out in the Letter from the Board, Hongri Acron's pollutants discharge permit has been renewed on 7 September 2016 after its expiration. We have obtained and reviewed the renewed pollutants discharge permit.

(iii) Expiration of production licenses of sulfuric acid and ammonia

As set out in the Letter from the Board, Hongri Acron's the production licenses of sulfuric acid and ammonia, both are raw materials for the production of the fertilizers, have currently expired. As advised by the senior management of Hongri Acron, the production of these two materials has been suspended due to low cost effectiveness and these two products are currently sourced from independent suppliers. Hongri Acron has applied to the relevant government authorities for the extension of the renewal application of the production licenses.

As discussion with the management of the Company, such expiration of the permits will not constitute a material financial effect on Hongri Arcon Group because the raw materials of the main products of Hongri Arcon Group are not related to the expired permits. Given Hongri Acron will source these two products from independent suppliers until valid

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licenses have been obtained, we are of the view that the absence of the production licenses shall not cause any material impact to the resumption of the full plant capacity.

(iv) Government relocation plan

As stated in the Letter from the Board, the principal operation of Hongri Acron located in Linyi City may be affected by the relocation plan. On 2 July 2015, 臨沂市人民政府辦公室 (Linyi Municipal People's Government Office*) issued the Notice in respect of (A) the closure and relocation of (i) chemical companies which are within the city center and did not complete the formalities or comply with the environmental standards by the end of 2015; and (ii) chemical companies which are not within the planned industrial area and did not comply with the environmental, health and safety standards by the end of 2017; and (B) relocation of all chemical companies by 2020. Hongri Acron was originally listed as one of the companies to be relocated in 2016 but was later permitted to postpone its relocation, which is now scheduled to start in 2018 and to complete by 2020.

Furthermore, as discussed with the management of the Company, we understood that even the relocation happened, the local government would generally provide certain compensation to the affected companies. We have also reviewed the Regulation on the Expropriation of Buildings on State-owned Land and Compensation 《國有土地上房屋徵收與補償條例》 issued by the State Council of the PRC in 2011 and noted that the compensation to be paid by the city and county people's governments to the affected entity shall include the compensation for (a) the value of the houses to be expropriated; (b) relocation and temporary resettlement arising from the house expropriation; and (c) losses arising from production and business suspension caused by the house expropriation. We are also advised by the management of the Company that the fixed assets of Hongri Acron are able to be relocated to (i) the upcoming new production facilities in Jiangsu province and (ii) the expanded production base in Jiansu province. Furthermore, given the relocation is a one-off event and will not materially affect the operation of Hongri Acron in long-term, (iii) although the relocation cost cannot be estimated precisely at the present time, Hongri Acron is entitled to the compensation for relocation costs and acceptable timeframe to schedule for moving by phases without material disruption to its existing production, we are therefore of the view that the relocation will not materially impact the operation and financial of Hongri Acron in long run.

Based on the PRC legal opinion, it is a common practice in the PRC for the local government to negotiate with the affected entities regarding the relocation. Such proposed relocation will be then commenced based on the negotiation results and the relevant requirements. As stated in the

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Letter from the Board, there was no discussion between Hongri Acron and the local government in respect of the relocation as at the Latest Practicable Date.

(v) Net loss and net current liabilities position

Set out below the highlights of the audited consolidated financial performance and position of Hongri Arcon Group for the three years ended 31 December 2014 and 2015 and six months ended 30 June 2016:

	For the year ended		For the six months ended
	31 December 2014	31 December 2015	30 June 2016
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Turnover	2,146,724	1,779,527	466,475
Gross profit	256,290	102,202	17,310
Loss before taxation	34,259	133,530	135,864
Loss for the year/period	<u>34,261</u>	<u>133,531</u>	<u>135,864</u>

	As at		
	31 December 2014	31 December 2015	30 June 2016
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Non-current assets	611,632	641,675	599,953
Current assets	840,104	766,498	385,900
Current liabilities	1,238,374	1,346,297	1,072,875
Non-current liabilities	27,735	14,329	—
Net current liabilities	398,270	579,799	686,975
Net assets/(liabilities)	<u>185,627</u>	<u>47,547</u>	<u>(87,022)</u>

As set out in the Letter from the Board, Hongri Acron had suspended production for the period from March 2015 to April 2015 and gradually resumed full production since November 2015. In early 2016, Hongri Acron decided to has temporarily reduced production to approximately 20% of the plant capacity due to the lack of liquidity to maintain its operation following the aforesaid suspension. We noted that the turnover of Hongri Arcon Group was decreased by approximately 17.1% for the year ended 31 December 2015 as compared to prior year which is mainly due to the aforesaid suspended and reduced production during 2015. Furthermore, given (i) the underutilization of production facilities and hence significantly lower revenue recorded for the same period and (ii) the occurrence of relatively fixed selling and administrative expense and finance costs that are uncorrelated to the turnover of Hongri Arcon Group,

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(iii) the fair value loss recognised in respect of corporate guarantees amounting to approximately HK\$28,672,000 and HK\$67,556,000 and (iv) the assets impairment amounting to approximately HK\$201,213,000 and HK\$5,721,000 for the two years ended December 2013 and 2014 respectively. As such, it recorded overall net loss for the same period. Nevertheless, by excluding the amount of fair loss of corporate guarantees and asset impairment, which is considered a non-recurring in nature and such effects are not related to the operation and profitability, Hongri Arcon Group would record net profits for the two years ended December 2013 and 2014. Furthermore, Hongri Arcon Group recorded the turnover of approximately HK\$2,658,737,000, HK\$2,146,724,000, HK\$1,779,527,000 and HK\$466,475,000 and a gross profit of approximately HK\$280,620,000, HK\$256,290,000, HK\$102,202,000 and HK\$17,310,000 for each of the year ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016 respectively which indicate that the products of Hongri Arcon have profitability. Moreover, as stated above, the Directors and senior management team of the Group possess well experience in the fertiliser industry and the Group is competent to improve the cost structure and the profitability of the Hongri Arcon Group upon the completion of the Acquisition, we are therefore of the view that (i) the core profitability of Hongri Arcon Group's products remain strong resulted from the brands of its products and the broad customers base and (ii) the financial result of Hongri Arcon Group will be improved after the resumption of the normal capacity of production because of the improvement of the liquidity of Hongri Arcon Group after Completion.

Hongri Arcon Group recorded net current liabilities as at 31 December 2014, 31 December 2015 and 30 June 2016. As advised by the management of the Company, the net current liabilities position of Hongri Arcon Group was mainly resulted from its heavy indebtedness position due to the (i) financing of capital investments in production facilities and its ordinary course of business for the past few years; (ii) the operating loss of Hongri Arcon Group for the year ended 31 December 2015 and for the six months ended 30 June 2016 due to the business interruption as disclosed in the Letter from the Board; and (iii) the corporate guarantees of approximately HK\$96,228,000, HK\$70,509,000 and HK\$48,625,000 as at year ended 31 December 2014 and 31 December 2015 and six months ended 30 June 2016 respectively. Such corporate guarantees provided by Hongri Arcon for each of Huasheng Jiangquan Group Co. Ltd. and its subsidiary and Linyi Meilian Zhonggong Co. Ltd., both of which are Independent Third Parties, with a sum of approximately RMB181,000,000 (equivalent to approximately HK\$211,372,000) and approximately RMB39,000,000 (equivalent to approximately HK\$45,544,000) respectively as at 30 June 2016. We agreed with the Board's view given the borrowings that due within one year represented approximately 46.9%, 31.9% and 39.7% of Hongri Arcon Group's current liabilities as at 31 December 2014, 31 December 2015 and 30 June 2016 respectively.

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As set out in the Letter from the Board, pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to procure Financial Assistance for Hongri Acron Group. In addition, leveraging on the Group's ability of effectively raise capital and its well-maintained relationship with banks, the Group will adopt measures to adjust the loan structure of Hongri Acron following Completion, including but not limited to, renegotiate the existing terms of borrowings and/or conduct fund raising activities to finance the operations of Hongri Acron in order to lower the finance costs and improve the gearing position of Hongri Acron. In addition, the Group will liaise with banks and the principal debtors in order to reduce Hongri Acron's exposure to the above corporate guarantees.

According to our discussion with the management of the Company, the Group has been maintaining its relationship with certain multinational and the PRC banks for 1 to 11 years. We have also obtained and reviewed the loan agreements entered into between the Group and such banks and concur such relationship exists. Also, we have obtained and reviewed certain correspondence between the Group and several banks and noted that the responses from such banks to the Group's Acquisition and Provision of Financial Assistance are supportive in general which demonstrate the positive relationship with those banks. As discussed with the management of the Company, such positive relationship will facilitate the Group to obtain the bank loan for Hongri Acron Group.

As stated above, there are corporate guarantees of approximately HK\$96,228,000, HK\$70,509,000 and HK\$48,625,000 as at year ended 31 December 2014 and 31 December 2015 and six months ended 30 June 2016 respectively provided by Hongri Acron to each of Huasheng Jiangquan Group Co. Ltd. and its subsidiary and Linyi Meilian Zhonggong Co. Ltd. As stated in the Letter from the Board, because the banks in China usually request guarantees for the bank loans, Hongri Acron has acted as the guarantors for the banking facilities granted to the both aforesaid companies and in return, both companies also guarantee the banking facilities granted to Hongri Acron. As advised by the Company, such guarantee arrangement to obtain the bank loans is not uncommon in Linyi City. In order to improve the financial services and facilitate the real economy to upgrade and transform, the government of Shandong province issued a public announcement on 30 June 2016 regarding the development of financial support to real economy (《山東省人民政府辦公廳關於金融支持實體經濟發展的意見》) which indicated that such guarantee arrangement is not uncommon. We have obtained and reviewed such announcement. As confirmed by the management of the Company, the reasons of entering into such guarantee arrangement are (i) the financial need to obtain the bank loans to maintain its liquidity and (ii) the requirement of the banks to provide such guarantee. In order to maintain the liquidity of Hongri Acron for its operation, it is reasonable for Hongri Acron to entering such

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guarantee arrangement. Having consider that (i) such guarantee arrangement to obtain the bank loans is not uncommon in Linyi City and mutually beneficial in nature; (ii) the financial need of Hongri Acron to obtain the bank loans for its operation and (iii) there is no other commercial arrangement or business relationship exists among the respective parties besides the above corporate guarantees, we are of the view that such guarantee arrangement is fair and reasonable to the Company.

As stated in the Letter from the Board, as at Latest Practicable Date, the bank loans of Hongri Acron guaranteed by Independent Third Parties, including Huasheng Jianquan Group Co. Ltd and Linyi Meilian Zhonggong Co. Ltd, amounted to RMB163,000,000 that is lower than the amounts of RMB180,000,000 which are guaranteed by Hongri Acron. However, having consider that (i) there is the financial need of Hongri Acron as stated above and (ii) the amounts guaranteed by those Independent Third Parties are substantially proportionate (i.e. approximately 90.6%) to the amounts guaranteed by Hongri Arcon, we are of view that entering into such guarantee arrangement is reasonable in this regard. It is noted that if the counterparties default on the aforesaid loans which are guaranteed by Hongri Arcon, Hongri Arcon could be called upon to fulfill the payment obligations under such corporate guarantees. For the details, please refer to the paragraph headed “RISK FACTORS — RISK RELATING TO THE DEFAULT ON BANK LOANS GRANTED TO CERTAIN INDEPENDENT BORROWERS UNDER THE EXISTING CORPORATE GUARANTEES PROVIDED BY THE TARGET GROUP” in the Letter from the Board.

In addition, given the provision of guarantee or securities by the Group and the provision of the products brands of Hongri Acron to the Group for procuring financing to Hongri Arcon Group, we are of the view that the Group shall face no material difficulties to procure suitable financial assistance to finance the operations of Hongri Acron.

Based on the foregoing analysis, in particular (i) with the assistance of the Group to procure suitable financial assistance to finance the operations of Hongri Acron and turnaround of the current financial distress of Hongri Acron, (ii) Hongri Arcon Group shall face no major obstacle in resuming its production after the improvement of the liquidity of Hongri Acron, (iii) the Acquisition can further expand the Group’s existing operating scale and its fertilizer business and (iv) the strong outlook of the PRC compound fertilizer industry, we are of the view that the entering into of the Acquisition Agreement and the Provision of Financial Assistance is in the interests of the Company and the Shareholders as a whole.

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II. PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

As set out in the Letter from the Board, set out below the major terms of the Acquisition Agreement:

Date	:	3 August 2016
Parties	:	Long Xiang Enterprises Limited, as the Purchaser Prosperous Rich Holdings Limited, as the Vendor Acronagrotrans Ltd, as the Target Company
Assets to be acquired	:	The Purchaser conditionally agreed to buy, and the Vendor conditionally agreed to sell the Sale Share.
Consideration	:	US\$1 (equivalent to approximately HK\$7.76) (the “ Consideration ”)
Undertakings	:	The Purchaser undertakes to use reasonable efforts to procure Hongri Arcon or its subsidiaries to repay the outstanding balance of the Certain Existing Debts by not later than 25 December 2016. In the event that the outstanding balance of the Certain Existing Debts is not fully repaid on or prior to 25 December 2016, the Purchaser shall procure the provision of Financial Assistance for the repayment of the outstanding balance of the Certain Existing Debts by not later than 30 December 2016.

The Purchaser undertakes to use reasonable efforts to assist Hongri Arcon Group to procure financing from banks and financial institutions and/or shall provide any forms of guarantee or securities (upon request by such banks and financial institutions) in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$292,500,000).

Conditions precedent	:	As stated in the Letter from the Board, the Completion is subject to the fulfillment or waiver (as the case may be) of the conditions precedent in the Acquisition Agreement (the “Conditions Precedent”), including but not limited to the Purchaser’s satisfaction with the results of the due diligence review. We consider the long stop date of the Acquisition, being 2 August 2017 and is more than 10 months from the Latest Practicable Date, should allow sufficient time for the Purchaser to conduct due diligence on the Acquisition.
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As stated in the Letter from the Board, none of the Conditions Precedent has been fulfilled as at the Latest Practicable Date.

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Consideration

Having considered (i) the ability to turnaround of the current financial distress of Hongri Acron, (ii) Hongri Arcon Group shall face no major obstacle in resuming its production after the improvement of the liquidity of Hongri Acron, (iii) the Acquisition can further expand the Group's existing operating scale and its fertilizer business and (iv) the strong outlook of the PRC compound fertilizer industry as discussed in previous section, we are of the view that the insignificant consideration for Acquisition of US\$1 is on normal commercial terms and are fair and reasonable as a whole.

Undertakings for Certain Existing Debts

As discussed with the management of the Company, Certain Existing Debts amounting to RMB20,300,000 arose from the receipt in advance by Hongri Acron from one of its PRC customers for its provision of fertilizer products from January to March 2016. We have reviewed the relevant sales contracts and noted that in the event that the Hongri Acron is not able deliver the products in a prescribed time, Hongri Acron shall return the respective advances to such customer. Given (i) the prescribed time stipulated in such sales contracts has lapsed, (ii) such undertaking is only based on reasonable efforts of the Group but is not strictly binding in nature, (iii) it's in the Group's interest as well to procure Hongri Acron or its subsidiaries to repay the Certain Existing Debts otherwise Hongri Acron might be sued by relevant customers, we are of the view that the inclusion of such undertaking in the Acquisition Agreement is acceptable as a whole.

Undertakings for Provision of Financial Assistance

In light of the current financial position of Hongri Arcon Group as stated above, upon Completion, the Purchaser has conditionally agreed to use reasonable efforts to assist Hongri Arcon Group to procure financing from banks and financial institutions and/or shall provide any forms of guarantee or securities (upon request by such banks and financial institutions) in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$292,500,000) for the working capital of Hongri Arcon Group's fertilizer business and repayment of Certain Existing Debts.

As discussed with the management of the Company, the basis in determining the amount of RMB250,000,000 has been referencing to the financial position of Hongri Arcon Group as at 30 June 2016. According to Hongri Arcon Group's Accountants' Report, the net current liabilities as at 30 June 2016 is amounted to approximately HK\$686,975,000 which included the borrowings of approximately HK\$426,246,000. As discussed with the management of the Company, such borrowings are mainly composed of bank loans which offer the flexibility for Hongri Arcon Group to renew such loans and Hongri Arcon Group shall face no major obstacle in renewal of such loans based on the historical record of the renewal. By excluding such bank loans, the net current liabilities amounted to approximately HK\$260,729,000, representing the imminent capital requirement by the Group to remain a healthy liquidity position and to pay its obligation that fall dues in upcoming 12 months. Therefore, we are of the view that the assistance to

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be provided by the Group to procure financing of the amount of RMB250,000,000 (equivalent to approximately HK\$292,500,000) for Hongri Arcon Group is justified and sufficient for Hongri Arcon to materially rectify the financial position as at 30 June 2016.

Given (i) such undertaking is only based on reasonable efforts of the Group but not strictly binding in nature and (ii) it's in the Group's interest as well to assist Hongri Arcon Group to procure financing otherwise Hongri Arcon Group do not have enough liquidity to carry out its operation in future, we are of the view that the inclusion of such undertaking in the Acquisition Agreement is acceptable as a whole.

III. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion of the Acquisition, the financial results, assets and liabilities of Target Group would be consolidated into the Group's consolidated financial statements.

(1) Earnings

Based on the audited consolidated financial statements of the Group as at 31 December 2015, the Group recorded an audited profit of approximately RMB341,885,000 for the year ended 31 December 2015. Based on Hongri Arcon Group's Accountants' Report as set out in Appendix II to the Circular, the audited loss of Hongri Arcon Group for FY2015 amounted to approximately HK\$133,531,000. It is expected that Hongri Arcon Group would contribute to the results of the Enlarged Group after completion of the Acquisition.

(2) Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular and assuming completion of the Acquisition had taken place on 30 June 2016, as a result of the Acquisition, (i) the total assets of the Enlarged Group would increase by approximately 23.5% to approximately HK\$7,044,072,000; (ii) the total liabilities of the Enlarged Group would increase by approximately 45.6% to approximately HK\$3,714,255,000; and (iii) the net assets of the Enlarged Group would increase by approximately 5.7% to approximately HK\$3,329,817,000.

(3) Working Capital

As set out in the Letter from the Board, the Consideration of US\$1 is expected to settle by cash from its internal resources. According to the interim report of the Group for the six months ended 30 June 2016, the Group has bank and cash balances of approximately HK\$1,803,651,000. Based on the existing available cash and the operating cash to be generated by the Group in the near future, the Directors are confident that the Company will have adequate cash to settle the payment of the Consideration when the Acquisition Agreement becomes effective. It is expected the Group's bank and cash balances would be reduced by the amount of the Consideration payable after the Acquisition.

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It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Acquisition.

CONCLUSION AND RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the execution of the Acquisition Agreement is in the ordinary and usual course of the business of the Group, (ii) the execution of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and (iii) the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, we advise (i) the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the relevant resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM; and (ii) the Independent Shareholders to vote in favor of the relevant resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
TC Capital International Limited
Stanley Chung
Managing Director

Note: Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. He has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

I. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the year ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (<http://www.centurysunshine.com.hk/en/index.php>):

- Interim report of the Company for the six months ended 30 June 2016 published on 14 September 2016 (pages 22–46).

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0914/LTN20160914061.pdf>

- Annual report of the Company for the year ended 31 December 2015 published on 18 April 2016 (pages 69 to 196);

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0418/LTN20160418135.pdf>

- Annual report of the Company for the year ended 31 December 2014 published on 26 March 2015 (pages 65 to 172); and

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0326/LTN20150326021.pdf>

- Annual report of the Company for the year ended 31 December 2013 published on 17 March 2014 (pages 57 to 164).

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0317/LTN20140317021.pdf>

II. INDEBTEDNESS**Borrowings and debts Borrowings**

As at the close of business on 31 July 2016, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had an unsecured borrowing of approximately HK\$1,071 million and secured bank borrowings of approximately HK\$1,340 million.

Pledge of assets

As at the close of business on 31 July 2016, the Enlarged Group had pledged certain of its property, plant and equipment, land use rights and deposits with bank of the Enlarged Group with a value of approximately HK\$431 million, HK\$174 million and HK\$176 million, respectively, to secure the bank borrowings.

Corporate guarantee

As at 31 July 2016, the Enlarged Group's secured borrowings of approximately HK\$191 million was guaranteed by the corporate guarantee.

As at 31 July 2016, the Enlarged Group has provided corporate guarantees to independent third parties to finance their secured borrowings of approximately HK\$210 million.

Exchangeable bond

As at the close of business on 31 July 2016, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Group has an exchangeable bond issued to Wan Tai Investments Limited, an indirectly and wholly-owned subsidiary of CCB International (Holdings) Limited, in the amount of HK\$232 million which bears interest at 8% per annum.

Contingent liabilities

- (i) On 15 January 2013, Capital Idea Investments Limited (“**Capital Idea**”, a wholly owned subsidiary of the Company) acquired 2,180 shares of China Rare Earth Magnesium Technology Holdings Limited (“**CREMTH**”, formerly known as China Magnesium Limited) from Mr. Miao Xi Zhu (“**Mr. Miao**”) at a consideration of HK\$32,089,382. CREMTH is a non-wholly owned subsidiary of the Company and is currently mainly owned as to 64.99% by Fullocean Group Limited (“**Fullocean**” a non-wholly owned subsidiary of the Company), 23.28% by Capital Idea and 8.73% by Win Union Limited (“**Win Union**”). Win Union is also the minority shareholder of Fullocean. Mr. Miao considered that he was misled to enter into the transaction at an undervalue. On 6 October 2014, Mr. Miao lodged a claim in relation to the transaction at the High Court of Hong Kong against Mr. Shum, Mr. Chi, Capital Idea and Win Union for the losses arising from selling shares at an undervalue. Mr. Shum, Mr. Chi and Capital Idea considered that the allegation of Mr. Miao went against the facts seriously. Prior to the completion of the transaction, Mr. Miao has been the second largest shareholder and director of CREMTH with full knowledge of its overall operation and development plans. The consideration of the transaction was determined after over one month’s negotiation between each party based on the assets, liabilities and performance of CREMTH, and thus there was no so-called sales at undervalue. To the best knowledge of the Company, as of Latest Practicable Date, the writ of summons of the litigation has been served for Mr. Shum and Mr. Chi, but not Capital Idea. Upon receiving the writ, Capital Idea will seek legal advice in relation to the claim and the necessary actions to be taken in this respect and will vigorously defend against the claim. The Company is of the view that this litigation will not have a material adverse impact on the business operation and financial position of the Enlarged Group. The Directors are of the opinion that no provision is required to be made.
- (ii) As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, Hongri Acron has executed financial guarantees to certain banks for credit facilities granted to Independent third party, amounting to approximately RMB240,000,000, RMB403,000,000, RMB312,000,000 and RMB220,000,000 respectively in which approximately RMB240,000,000, RMB403,000,000, RMB312,000,000 and RMB220,000,000 have been utilized respectively.

III. WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of opinion that the Enlarged Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statement of the Group were made up.

V. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the fertilizer business, magnesium product business and metallurgical flux business. Upon Completion, the Enlarged Group will further expand its operating scale in and enhance the growth of fertilizer business in the PRC.

(i) Fertilizer business

In order to achieve the strategic objective of developing Group's fertilizer business to the national forefront and accelerate the rapid growth of the business, the Group proactively seeks appropriate merger and acquisition opportunities and keeps expanding its production scale.

As discussed in the section headed "Reasons for and Benefit of the Transactions" in the letter from the Board contained in this circular, Hongri Acron is a well-established and leading fertilizer producer in the PRC with decades of proven operational history, rich product portfolio, well-recognized brands and extensive national market network. Despite the current financial and business position of the Target Group, the Board is of the view that through the Financial Assistance and under the Group's management and knowhow, it is expected to turn around the Target Group's financial performance.

The Board believes that the Acquisition will create synergy by allowing the Group to further expand its operating scale, enriching its product offerings and strengthening its market coverage and product penetration nationwide by sharing customer base and sales network. The Board believes that the Acquisition can bring long-term strategic benefits to the Group.

Supported by the long term favourable government policies in the PRC and in pace with the sustainable development trend, it is the Group's business direction to expand its business scale in both fertilizer and magnesium product business. The Group will continue to seize the opportunity to enrich its product range in compound fertilizers and expand its distribution footprints within the fertiliser industry in the PRC and develop ecological fertilizers.

(ii) Magnesium business

The Group has invested heavily in the research and development of magnesium alloy projects since 2008. The Group currently holds a rich and quality reserve of dolomite mineral resource, a highly developed basic magnesium and magnesium alloy production base, and possesses a number of exclusive patents in high performance magnesium alloy manufacturing methods and technologies. Achieving fully in independent supply of upstream resources and downstream production capacity provides good conditions and driving forces for development of the magnesium product business.

Group Sense (International) Limited (“GSIL”) (stock code: 601), a subsidiary of the Company and whose shares are listed on the Stock Exchange, has an established magnesium and semi-coke production lines in Xinjiang. GSIL intends to expand its annual production capacity of 15,000 tonnes of magnesium to the designed production capacity up to 100,000 tonnes. Upon completion of the expansion, the aggregate production capacity of the Group is expected to reach 175,000 tonnes in the future, which would further enhance the market position of the Group in the magnesium industry.

(iii) Other businesses

Other businesses of the Group include metallurgical flux and electronic products. The Group will maintain the stable income in both electronic products business and metallurgical flux business, and further effectively manage the cost and optimize the operating performance of both businesses.

Leveraging on its advantages in technology and resources in the fertilizer and the magnesium businesses, the Group will continue to invest in research and development and implement capacity expansion plan so as to proactively expand to new markets with differentiated strategies and cater its products specifically to the needs of consumers.

The Directors believes that the above strategies will enable the Enlarged Group to develop its businesses to the forefront of the industries in the PRC and bring good returns to the Shareholders.

As at the Latest Practicable Date, to the best knowledge of the Directors, neither the Company nor the Board had any intention, arrangement, agreement, understanding or negotiation on (i) any disposal/termination/scaling down of the Company’s existing businesses; (ii) injection of any new business to the Company other than the Acquisition; and (iii) any change in the Company’s board composition and shareholding structure.

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, prepared for the purpose of incorporation in the circular.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 September 2016

The Board of Directors
Century Sunshine Group Holdings Limited
Unit 2605, 26/F Harbour Centre
25 Harbour Road Wanchai
HONG KONG

Dear Sirs,

We set out below our report on the financial information of Shandong Hongri Acron Chemical Joint Stock Company, Ltd (the “**Target Company**”), and its subsidiaries (hereinafter collectively referred to as the “**Target Group**”), comprising the consolidated statements of financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 30 June 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for the years ended 31 December 2013, 2014 and 2015, for the six months period ended 30 June 2016 (the “**Relevant Periods**”), together with the note thereto (the “**Financial Information**”), and the comparative consolidated statement of profit or loss and other comprehensive income, the consolidated statement changes in equity and the consolidated statement of cash flows of the Target Group for the six months ended 30 June 2015 (the “**Unaudited Comparative Financial Information**”), prepared on the basis of presentation set out in Note 3 of Section II below, for inclusion in the circular of Century Sunshine Group Holdings Limited (the “**Company**”) dated 27 September 2016 (the “**Circular**”) in connection with the sale and purchase agreement dated 3 August 2016 (the “**Agreement**”) entered into between Long Xiang Enterprises Limited, a wholly-owned subsidiary of the Company (the “**Purchaser**”), Prosperous Rich Holdings Limited (the “**Vendor**”) and Acronagrotrans Ltd pursuant to which the Company would acquire the entire issued share capital of Acronagrotrans Ltd at a total consideration of US\$1 (the “**Consideration**”), (collectively refer as the “**Acquisition**”).

The Target Company was incorporated in the People’s Republic of China (the “**PRC**”) with limited liabilities on 26 April 1993. The Target Group is principally engaged in fertilizer business in the PRC.

The Target Group adopts 31 December as its financial year end date.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Target Group have prepared the Financial Information for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), and for such internal control as the directors of the Target Group determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error. The Financial Information for each of the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information set out in this report has been prepared from the unaudited financial statements of the Target Group with no adjustments made thereon.

RESPONSIBILITY OF THE DIRECTORS

The directors of the Company and the Target Group are responsible for the contents of the Circular, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 3 of Section II. The directors of the Company and the Target Group are responsible for the preparation of the Financial Information and the Unaudited Comparative Financial Information that give a true and fair view in accordance with HKFRSs and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information and the Unaudited Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

For the Financial Information for the Relevant Periods, it is our responsibility to form an independent opinion on the Financial Information based on our examination and to report our opinion to you. We examined the relevant audited financial statements of the Target Group for the Relevant Periods, and carried out such procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists principally of making enquiries of the management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3 to the Financial Information which indicates that the Target Group incurred a net loss of approximately HK\$202,794,000, HK\$34,261,000, HK\$133,531,000 and HK\$135,864,000 during the years ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016 and, as of 30 June 2016, the Target Group's current liabilities exceeded its total assets by HK\$87,022,000. Notwithstanding the above, the Financial Information have been prepared on a going concern basis, the validity of which is dependent on the Target Group's ability to obtain external source of funding and derive adequate operating cash flows from the existing operations in order for the Target Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. These conditions, along with other matters set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern.

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

I. FINANCIAL INFORMATION

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		For the year ended 31 December 2013 <i>HK\$'000</i>	For the year ended 31 December 2014 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
	<i>Notes</i>					
Revenue	7	2,658,737	2,146,724	1,779,527	944,242	466,475
Cost of sales		<u>(2,378,117)</u>	<u>(1,890,434)</u>	<u>(1,677,325)</u>	<u>(889,098)</u>	<u>(449,165)</u>
Gross profit		280,620	256,290	102,202	55,144	17,310
Other income and gains	9	45,564	13,146	18,046	23	13,701
Selling and marketing cost		(77,457)	(63,648)	(87,497)	(39,918)	(21,740)
Administrative expenses		(412,065)	(200,805)	(127,633)	(75,996)	(130,262)
Finance costs	10	<u>(39,452)</u>	<u>(39,242)</u>	<u>(38,648)</u>	<u>(18,055)</u>	<u>(14,873)</u>
Loss before income tax expense		(202,790)	(34,259)	(133,530)	(78,802)	(135,864)
Income tax expense	11	<u>(4)</u>	<u>(2)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>
Loss for the year/period	12	(202,794)	(34,261)	(133,531)	(78,802)	(135,864)
Other comprehensive income for the year/period, net of tax:						
— Exchange differences on translating foreign operations		<u>10,691</u>	<u>(1,316)</u>	<u>(4,549)</u>	<u>14,142</u>	<u>1,295</u>
Total comprehensive loss for the year/period, net of tax		<u><u>(192,103)</u></u>	<u><u>(35,577)</u></u>	<u><u>(138,080)</u></u>	<u><u>(64,660)</u></u>	<u><u>(134,569)</u></u>

The accompanying notes form an integral part of the Financial Information.

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

Consolidated Statement of Financial Position

		As at 31 December 2013	As at 31 December 2014	As at 31 December 2015	As at 30 June 2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Land use right	15	66,347	62,941	56,769	54,129
Property, plant and equipment	16	516,573	543,850	581,578	543,185
Intangible assets	17	6,206	4,841	3,328	2,639
		589,126	611,632	641,675	599,953
Current assets					
Trade and other receivables, prepayments and deposits	20	266,855	319,210	227,776	97,384
Inventories	19	286,996	392,974	344,345	124,619
Land use right	15	3,038	3,019	2,860	2,797
Financial assets at fair value through profit and loss	21	87,081	26,474	31,057	—
Pledged bank deposits	22	22,732	51,474	134,965	140,058
Cash and cash equivalents	22	28,668	46,953	25,495	21,042
		695,370	840,104	766,498	385,900
Current liabilities					
Trade and other payables	23	645,111	560,154	845,146	597,238
Financial guarantee liabilities	25	28,672	96,228	70,509	48,625
Tax payables		1	—	—	—
Borrowings	24	354,431	581,164	429,858	426,246
Dividend payable		833	828	784	766
		1,029,048	1,238,374	1,346,297	1,072,875
Net current liabilities		(333,678)	(398,270)	(579,799)	(686,975)
Total assets less current liabilities		255,448	213,362	61,876	(87,022)
Non-current liabilities					
Borrowings	24	34,244	27,735	14,329	—
Net assets/(liabilities)		221,204	185,627	47,547	(87,022)
Capital and reserves					
Paid-in capital	26	122,340	122,340	122,340	122,340
Reserves		98,864	63,287	(74,793)	(209,362)
		221,204	185,627	47,547	(87,022)

The accompanying notes form an integral part of the Financial Information.

APPENDIX II	ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP
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Consolidated Statement of Changes in Equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013	122,340	52,481	239,681	37,621	(38,816)	413,307
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(202,794)</u>	<u>(202,794)</u>
Exchange difference arising from translation of foreign operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,691</u>	<u>—</u>	<u>10,691</u>
Total comprehensive income/(loss) for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,691</u>	<u>(202,794)</u>	<u>(192,103)</u>
At 31 December 2013 and 1 January 2014	122,340	52,481	239,681	48,312	(241,610)	221,204
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(34,261)</u>	<u>(34,261)</u>
Exchange difference arising from translation of foreign operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,316)</u>	<u>—</u>	<u>(1,316)</u>
Total comprehensive loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,316)</u>	<u>(34,261)</u>	<u>(35,577)</u>
At 31 December 2014	<u>122,340</u>	<u>52,481</u>	<u>239,681</u>	<u>46,996</u>	<u>(275,871)</u>	<u>185,627</u>

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	122,340	52,481	239,681	46,996	(275,871)	185,627
Loss for the year	—	—	—	—	(133,531)	(133,531)
Exchange difference arising from translation of foreign operations	—	—	—	(4,549)	—	(4,549)
Total comprehensive income for the year	—	—	—	(4,549)	(133,531)	(138,080)
At 31 December 2015 and 1 January 2016	122,340	52,481	239,681	42,447	(409,402)	47,547
Loss for the period	—	—	—	—	(135,864)	(135,864)
Exchange difference arising from translation of foreign operations	—	—	—	1,295	—	1,295
Total comprehensive income for the period	—	—	—	1,295	(135,864)	(134,569)
At 30 June 2016	122,340	52,481	239,681	43,742	(545,266)	(87,022)
At 1 January 2015	122,340	52,481	239,681	46,996	(275,871)	185,627
Loss for the period	—	—	—	—	(78,802)	(78,802)
Exchange difference arising from translation of foreign operations	—	—	—	14,142	—	14,142
Total comprehensive income for the period	—	—	—	14,142	(78,802)	(64,660)
At 30 June 2015	122,340	52,481	239,681	61,138	(354,673)	120,967

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

Consolidated Statement of Cash Flows

	For the year ended 31 December 2013 <i>HK\$'000</i>	For the year ended 31 December 2014 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
OPERATING ACTIVITIES					
Loss before taxation	(202,790)	(34,259)	(133,530)	(78,802)	(135,864)
Adjustments for:					
Interest income	(2,248)	(4,709)	(3,790)	—	(1,011)
Amortisation of intangible assets	1,297	1,328	1,310	665	626
Amortisation of land use right	2,969	3,006	2,963	1,505	1,416
Finance cost	39,452	39,242	38,648	18,055	14,873
Loss on disposal of property, plant and equipment	23,478	1,089	3,560	2,246	4,510
Depreciation	74,572	57,885	42,230	31,688	16,073
Impairment loss on property, plant and equipment	201,213	5,721	3,014	—	25,354
Reversal of impairment on trade and other receivables	—	(7,448)	(2,720)	—	(5,545)
Impairment loss on trade and other receivables	11,561	9,851	18,328	—	10,045
Fair value change of financial guarantee liabilities	28,672	67,556	(25,719)	(19,896)	(21,884)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	178,176	139,262	(55,706)	(44,539)	(91,407)
(Increase)/decrease in trade and other receivables	(52,027)	(54,758)	75,826	118,168	125,892
Decrease/(increase) in inventories	501,492	(105,978)	48,629	86,786	219,726
Increase/(decrease) in trade and other payables	(316,481)	(84,957)	284,992	(73,063)	(247,908)
Cash generated from/(used in) operations	311,160	(106,431)	353,741	87,352	6,303
Income tax paid	(3)	(3)	(1)	—	—
Net cash generated from/(used in) operating activities	311,157	(106,434)	353,740	87,352	6,303

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

	For the year ended 31 December 2013 <i>HK\$'000</i>	For the year ended 31 December 2014 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(67,273)	(96,452)	(125,924)	(12,878)	(20,844)
Proceeds from disposal of property, plant and equipment	713	1,353	7,931	1,247	965
Purchase of land use right	(680)	—	—	—	—
Addition of intangible assets	(1,245)	—	—	—	—
(Increase)/decrease in financial assets at fair value through profit and loss	(87,081)	60,607	(4,583)	(14,539)	31,057
Interest income	2,248	4,709	3,790	—	1,010
Decrease/(increase) in pledged bank deposits	54,340	(28,742)	(83,491)	(4,674)	(5,093)
Net cash generated from/(used in) investing activities	(98,978)	(58,525)	(202,277)	(30,844)	7,095
FINANCING ACTIVITIES					
Repayment of bank loan	(676,133)	(472,058)	(617,323)	(274,114)	(213,707)
Interest paid	(39,452)	(39,242)	(38,648)	(18,055)	(14,873)
New bank loan raised	353,475	694,623	484,784	301,904	205,532
Net cash generated from/(used in) financing activities	(362,110)	183,323	(171,187)	9,735	(23,048)
Net increase/(decrease) in cash and cash equivalents	(149,931)	18,364	(19,724)	66,243	(9,650)
Cash and cash equivalents at the beginning of the year/period	170,255	28,668	46,953	46,953	25,495
Effect of foreign exchange rate changes	8,344	(79)	(1,734)	9,504	5,197
Cash and cash equivalents at the end of the year/period	<u>28,668</u>	<u>46,953</u>	<u>25,495</u>	<u>122,700</u>	<u>21,042</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents	<u>28,668</u>	<u>46,953</u>	<u>25,495</u>	<u>122,700</u>	<u>21,042</u>

The accompanying notes form an integral part of the Financial Information.

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The registered office and principal place of business of the Target Company is at the East Section, Hubei Road, Luozhuang District, Linyi City, Shandong Province (山東省臨沂市羅莊區湖北路東段). The Target Company was incorporated in PRC and is principally engaged in businesses of fertilizer. The controlling shareholder of the Target Group is Acronagrotrans Ltd., a company incorporated in the Republic of Cyprus.

The Target Company is principally engaged in sales of fertilizer.

The Financial Information is presented in Hong Kong Dollars (“**HKD**”). The subsidiaries of Target Company were established in the People’s Republic of China (the “**PRC**”) whose functional currency is Renminbi (“**RMB**”).

2. APPLICATION OF NEW AND REVISED HKFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently applied all HKFRSs which are effective for the Target Group’s financial year beginning on 1 January 2015 consistently throughout the Relevant Periods.

The Target Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Lease ³
Amendments to HKFRS 15	Classifications to HKFRS 15 Revenue from Contracts with Customers ³
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKFRS 12	Recognition of Deferred Tax Assets for Unrecognised Losses ¹
Amendments to HKAS 10 and HKAS 28	Sale or Contribution of Assets between and Investor and its Associate and Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted that apply HKFRS 15 on or before the date of initial application of HKFRS 16.

⁴ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Target Company anticipate that HKFRS 9 in the future may have a material impact on amounts reported and disclosures made in the Financial Information. However, it is not practical to provide a reasonable estimate of that effect of HKFRS 9 until the Target Group performs a detailed review.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Target Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Target Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC)-Int 4 "Determining whether an Arrangement contain a Lease", HK(SIC)-Int 15 "Operating Lease — Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17 "Leases". Under HKFRS 16, leases are recorded on the statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities. There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. lease of 12 months or less, including the effect of any extension options) and (b) leases of low value assets (for example, a lease of a personal computer). HKFRS 16 substantially carries forward the lessor's accounting requirements in HKAS 17.

Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

(a) if the head lease is a short-term lease that the entity, as a lessee, the sublease shall be reclassified as an operating lease; (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

The directors of the Target Company is in the process of making an assessment of the potential impact of application of HKFRS 16, the directors of the Target Company consider that it is not practicable to provide a reasonable estimate of the effect of the adoption of HKFRS 16 until the Target Group performs a detailed review.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The principal accounting policies applied in the preparation of these financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

The disclosure requirements set out in the Listing Rules regarding financial statements presented in a circular have been amended with reference to the provisions of the new CO (Cap. 622) and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the Financial Information has been changed to comply with these new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

(b) Basis of preparation

The Target Group incurred net losses of approximately HK\$202,794,000, HK\$34,261,000, HK\$133,531,000 and HK\$135,864,000 for the years ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, and as of 30 June 2016 the Target Group's current liabilities exceed its total assets by approximately HK\$87,022,000. In preparing the Financial Information, the directors have given careful consideration to the future liquidity of the Target Group. The directors adopted the going concern basis for the preparation of the Financial Information and implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Target Group:

(1) Alternative source of funding

In light of the current financial position of the Target Group, in connection with the Sale and Purchase Agreement between Prosperous Rich Holdings Limited and Long Xiang Enterprises Limited ("Purchaser"), Long Xiang Enterprises Limited has conditionally agreed to use reasonable efforts to assist the Target Group to procure financing for the working capital of the Target Group's fertilizer business.

Pursuant to the Acquisition Agreement, the Purchaser conditionally agrees to use reasonable efforts to assist the Target Group to procure financing from banks and financial institutions and/or shall provide any forms of guarantee or securities (upon request by such banks and financial institutions) in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$292,500,000) provided that, among others, all the proceeds from the financing procured by the Purchaser shall be solely used by the Target Group for the working capital of the Target Group's fertilizer business including the repayment of certain Existing Debts by not later than 25 December 2016 but not for any other purpose.

In addition, Century Sunshine Group Holdings Limited, the holding company of the Purchaser, conditionally agreed to provide financial support to the Target Group to ensure it to continue as a going concern and to settle its liabilities off when they fall due.

(2) *Attainment of profitable and positive cash flow operations*

The Target Group had suspended production for the period from March 2015 to April 2015 due to the environmental inspection of the industrial areas in Linyi City by the local authorities, and in early 2016, the Target Group decided to temporarily reduce production to approximately 20% of the plant capacity due to the lack of liquidity to maintain its operation following the said suspension.

On 18 August 2016, the Target Group has resumed its production capacity to about 40% and is expected to increase the production rate to approximately 70% to 80% of capacity utilization by the end of 2016.

The Target Group is taking measures to tighten cost controls over various costs and expenses and to seek new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Target Company, in light of implementation of the various measures or arrangements after the end of reporting period together with the expected results of the measures, the Target Group will have sufficient working capital for its current requirements and it is reasonable to expect the Target Group to remain a commercially viable concern. According, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Target Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statement.

The Financial Information have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(i) *Financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(c) Basis of consolidation

The Financial Information incorporate the financial statements of the Target Company and entities (including structured entities) controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Target Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Target Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Target Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Target Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meeting.

Consolidation of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Target Company gains control until the date when the Target Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

(d) Impairment of assets

(i) Financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of within 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of profit or loss and other comprehensive income in the year in which the reversals are recognised.

(e) Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statements of profit or loss and other comprehensive income.

(i) Financial assets

Financial assets are classified into held-to-maturity investments and loans and receivables (including cash and bank balances). All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

- a. those that the entity upon initial recognition designates as at fair value through profit or loss;
- b. those that the entity designates as available for sale; and
- c. those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent investments held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables including trade and other receivables, held-to-maturity investments and cash and cash equivalents are carried at amortised cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(ii) Financial liabilities (including interest-bearing borrowings)

Financial liabilities including other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “finance costs” in the statements of profit or loss and other comprehensive income.

Gains and losses are recognised in the statements of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the entity has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the statements of profit or loss and other comprehensive income.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statements of profit or loss and other comprehensive income.

(f) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted to use.

(g) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of service is recognised when the services are provided.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(h) Property, plant and equipment

Property, plant and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is

normally charged to the statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of items of property, plant and equipment, using the straight line method, over its estimated useful life. The principal annual rates are as follows:

Office equipment	20%
Motor vehicles	25%
Furniture and fixtures	33.33%
Leasehold land	over the lease term
Buildings	over the shorter of land use right and 3.33%
Plant and machinery	7.14% to 8.33%

The gain or loss on disposal or retirement of an item of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the statement of profit or loss and other comprehensive income.

(i) Construction in progress

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(k) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes statements of comprehensive income items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associate, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

(m) Foreign currency

i. Functional and presentation currency

Items included in the financial statements of the Target Group are measured using the currency of the primary economic environment in which the Target Group operates (the “**functional currency**”). The financial information are presented in HKD, which is the presentation currency of the Target Group.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

(n) Related parties

(i) A person, or a close member of that person’s family, is related to the Target Group if that person:

- (1) has control or joint control over the Target Group;
- (2) has significant influence over the Target Group; or
- (3) is a member of the key management personnel of the Target Group or of a parent of the Target Group.

(ii) An entity is related to the Target Group if any of the following conditions applies:

- (1) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (3) both entities are joint ventures of the same third party.
- (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (5) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.
- (6) the entity is controlled or jointly controlled by a person identified in (i).
- (7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (8) the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

(o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Target Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Target Group's net investment outstanding in respect of the leases.

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Target Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Target Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Intangible assets

Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Trademark

Expenditure on acquired technical know-how is capitalised and amortised using the straight-line method over its estimated useful life of 10 years, from the date when the technical know-how is available for use.

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset; and
- how the intangible asset will generate probable future economic benefits.

(s) Land use right

Payment for obtaining land use rights is considered as prepaid operating lease payment. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses, amortisation is charged to profit or loss over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

(t) Financial guarantee liabilities

Financial guarantee liabilities represents a financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the Financial Information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated Impairment of Property, Plant and Equipment, Intangible Assets

The Target Group evaluates whether property, plant and equipment and intangible assets carried at cost have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 3. The recoverable amounts of CGUs represent the higher of the asset's fair value less costs to disposal or its value-in-use. The calculations of fair value less costs to disposal or value-in-use require the use of estimates. During the year ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, the Target Group provide HK\$201,213,000, HK\$5,721,000, HK\$3,014,000 and HK\$25,354,000 for impairment of property, plant and equipment and did not provide an impairment of intangible assets.

(b) Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets

The Target Group assesses whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires the Target Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to estimated impairment provision previously made.

In determining the useful life and residual value of an item of property, plant and equipment, the Target Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Target Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

(c) *Income taxes*

The Target Group is subject to income taxes in PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) *Impairment of trade receivables*

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Target Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the statement of profit or loss and other comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

5. FINANCIAL INSTRUMENTS

(a) **Categories of financial instruments**

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Financial assets				
Loan and receivables (including cash and cash equivalents)				
— trade and bills receivables	104,892	113,908	130,753	13,553
— deposits and other receivables	22,819	21,178	39,222	29,229
— cash and cash equivalents	51,400	98,427	160,460	161,100
Financial asset at fair value through profit and loss	87,081	26,474	31,057	—
	<u>266,192</u>	<u>259,987</u>	<u>361,492</u>	<u>203,882</u>
Financial liabilities				
Amortised cost				
Trade and bills payable	178,908	239,970	413,687	274,554
Borrowings	388,675	608,899	444,187	426,246
Financial guarantee liabilities	28,672	96,228	70,509	48,625
Accruals and other payables	127,576	94,081	112,206	254,813

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, cash and cash equivalents and other payables. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Target Group's financial instruments are currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Target Group operates mainly in PRC and majority of transactions are dominated in RMB. The Target Group is exposed to limited foreign exchange risk as most assets and liabilities are denominated in RMB. The Target Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The main operations of the Target Group were in the PRC and most of the transactions were denominated in RMB. The Target Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the Relevant Periods.

Credit risk

The Target Group's credit risk is primarily attributable to trade and other receivables. It has policies in place to ensure that sales and services are made to customers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis.

The carrying amounts of trade receivables included in the statement of financial position represent the Target Group's maximum exposure to credit risk in relation to the Target Group's financial assets. No other financial assets carry a significant exposure to credit risk.

In the opinion of the directors of the Target Group, since the currency risk is minimal, no sensitivity analysis is presented.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Target Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

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The Target Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

As at 31 December 2013						
	Weighted average interest rate	Carrying amount <i>HK\$'000</i>	On demand <i>HK\$'000</i>	Less than 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	—	645,111	—	645,111	—	645,111
Financial guarantee liabilities	—	28,672	—	28,672	—	28,672
Borrowings	6.64%	388,675	—	354,431	34,244	388,675
		<u>1,062,458</u>	<u>—</u>	<u>1,028,214</u>	<u>34,244</u>	<u>1,062,458</u>
As at 31 December 2014						
	Weighted average interest rate	Carrying amount <i>HK\$'000</i>	On demand <i>HK\$'000</i>	Less than 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	—	560,154	—	560,154	—	560,154
Financial guarantee liabilities	—	96,228	—	96,228	—	96,228
Borrowings	6.91%	608,899	—	581,164	27,735	608,899
		<u>1,265,281</u>	<u>—</u>	<u>1,237,546</u>	<u>27,735</u>	<u>1,265,281</u>
As at 31 December 2015						
	Weighted average interest rate	Carrying amount <i>HK\$'000</i>	On demand <i>HK\$'000</i>	Less than 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	—	845,146	—	845,146	—	845,146
Financial guarantee liabilities	—	70,509	—	70,509	—	70,509
Borrowings	6.03%	444,187	—	429,858	14,329	444,187
		<u>1,359,842</u>	<u>—</u>	<u>1,345,513</u>	<u>14,329</u>	<u>1,359,842</u>
As at 30 June 2016						
	Weighted average interest rate	Carrying amount <i>HK\$'000</i>	On demand <i>HK\$'000</i>	Less than 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	—	597,642	—	597,642	—	597,642
Financial guarantee liabilities	—	48,625	—	48,625	—	48,625
Borrowings	5.19%	426,246	—	426,246	—	426,246
		<u>1,072,513</u>	<u>—</u>	<u>1,072,513</u>	<u>—</u>	<u>1,072,513</u>

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Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- (ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

Except as detailed in the following table, the directors consider that the carrying amount of other financial assets and financial liabilities carried at amortised cost, approximate to their fair values due to the relatively short-term nature of these financial instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2013, 2014 and 2015 and 30 June 2016.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy as at 31 December 2013				
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Financial assets at fair value through profit or loss	—	87,081	—	—

Fair value hierarchy as at 31 December 2014				
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Financial assets at fair value through profit or loss	—	26,474	—	—

Fair value hierarchy as at 31 December 2015				
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Financial assets at fair value through profit or loss	—	31,057	—	—

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Fair value hierarchy as at 30 June 2016				
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Financial assets at fair value through profit or loss	—	—	—	—

The valuation techniques of financial assets at fair value through profit or loss is based on the discounted expected return from financial institutions.

6. CAPITAL RISK MANAGEMENT

The Target Group monitors its capital structure on the basis of a debt-to-capital ratio. For this purpose, the Target Group defines debt as total borrowings which are bearing fixed or variable interest rates. Capital represents the total equity in the statement of financial position.

The Target Group's strategy was to maintain the debt-to-capital ratio as low as feasible. In order to maintain or adjust the ratio, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Target Group did not have any debt during the Relevant Periods.

The Target Group is not subject to externally imposed capital requirements.

7. REVENUE

An analysis for the Target Group's turnover for the year/period is as follows:

	For the year ended 31 December 2013 HK\$'000	For the year ended 31 December 2014 HK\$'000	For the year ended 31 December 2015 HK\$'000	Six months ended 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Revenue:					
Sales of fertilizer products	2,658,737	2,146,724	1,779,527	944,242	466,475

8. SEGMENT INFORMATION

Information reported to the board of directors of the Target Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Target Group currently mainly operates in one business segment in the sales of fertilizer products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the net profit of the Target Group and the reportable assets and liabilities.

Geographical information

During the years ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, the Target Group mainly operated in the PRC and most of the Group's revenue are derived from the PRC and most of non-current assets of the Target Group are located in the PRC as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016. No analysis of the Group's result and assets by geographical area is disclosed.

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Information about Major Customers

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Group during the years ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016.

9. OTHER INCOME AND GAINS

An analysis for the Target Group's other income and gains for the year/period is as follows:

	For the year ended 31 December 2013 <i>HK\$'000</i>	For the year ended 31 December 2014 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
Interest income	2,248	4,709	3,790	—	1,011
Sales of scrap materials	38,893	7,475	13,613	—	11,038
Government grant	4,210	504	—	—	—
Sundry income	213	458	643	23	1,652
	<u>45,564</u>	<u>13,146</u>	<u>18,046</u>	<u>23</u>	<u>13,701</u>

10. FINANCE COSTS

An analysis for the Target Group's finance costs for the year/period is as follows:

	For the year ended 31 December 2013 <i>HK\$'000</i>	For the year ended 31 December 2014 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
Interest on borrowings wholly repayable within 5 years	41,794	39,242	38,648	18,055	14,873
Total borrowing cost	41,794	39,242	38,648	18,055	14,873
Less: amount capitalised in the cost qualifying assets	(2,342)	—	—	—	—
	<u>39,452</u>	<u>39,242</u>	<u>38,648</u>	<u>18,055</u>	<u>14,873</u>

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11. INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of profit or loss and other comprehensive income represents:

	For the year ended 31 December 2013 HK\$'000	For the year ended 31 December 2014 HK\$'000	For the year ended 31 December 2015 HK\$'000	Six months ended 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Current tax for the year/period:					
PRC tax provision for the year/period	4	2	1	—	—

PRC Enterprise Income Tax

The provision for PRC Enterprise Income Tax for the Target Group in the PRC is based on PRC Enterprise Income Tax rates of 25% of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

The tax on the Target Group's profit before income tax differs from the theoretical amount that would arise using a tax rate of 25%, the standard income tax rate of the PRC enterprises, as follows:

	For the year ended 31 December 2013 HK\$'000	For the year ended 31 December 2014 HK\$'000	For the year ended 31 December 2015 HK\$'000	Six months ended 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Loss before taxation	(202,790)	(34,259)	(133,530)	(78,802)	(135,864)
Tax charge at applicable income tax rate of 25%	(50,697)	(8,565)	(33,383)	(19,700)	(33,966)
Tax effect of income not taxable for tax purpose	(3,174)	(60,962)	(57,106)	—	(55,670)
Tax effect of expense not deductible for tax purpose	68,465	77,202	62,159	—	58,498
Utilisation of previous unrecognised tax losses	(14,987)	(8,092)	—	—	—
Tax effect of estimated tax losses not recognised	397	419	28,331	19,700	31,138
Tax charge for the year/period	4	2	1	—	—

As at 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016, the Target Group has unrecognised tax losses of approximately HK\$1,588,000, HK\$1,676,000, HK\$113,324,000 and HK\$124,552,000, which can be carried forward to offset future taxable profit. Tax losses of approximately HK\$72,726,000, which relate to the year 2013, will expire in two years from the year of assessment they relate to. The deferred tax benefit of such tax losses has not been recognised as it is uncertain that future taxable profit will be available to utilize the unused tax losses.

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12. LOSS FOR THE YEAR/PERIOD

Loss for the year/period has been arrived at after charging/(crediting):

	For the year ended 31 December 2013 <i>HK\$'000</i>	For the year ended 31 December 2014 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
Staff cost:					
Salaries allowance and benefits in kind	130,443	157,135	152,808	78,775	65,275
Other items:					
Auditors' remuneration	—	—	—	—	—
Depreciation and amortisation	78,838	62,219	46,503	33,858	18,115
Cost of inventories recognised as an expense	2,377,044	1,889,335	1,677,180	889,098	448,950
Operating lease rental in respect of land and building	40	557	1,267	581	792
Reversal of impairment loss on receivables	—	(7,448)	(2,720)	—	(5,545)
Impairment of receivables	11,561	9,851	18,328	—	10,045
Impairment loss on property, plant and equipment (<i>Note b</i>)	201,213	5,721	3,014	—	25,354

Notes:

- (a) As stipulated by rules and regulations in the PRC, the Target Group contributes to a state-sponsored retirement plan for its employees in the PRC, which is a defined contribution plan. The Target Group contributes approximately 14% of the employees' salary as specified by the local government, and the Target Group has no future obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations to retired employees.
- (b) Included in "Administrative expenses" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Directors' emoluments:

	For the year ended 31 December 2013 HK\$'000	For the year ended 31 December 2014 HK\$'000	For the year ended 31 December 2015 HK\$'000	Six months ended 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Other emoluments:					
Salaries, allowances and benefits in kind	2,351	3,200	2,671	1,257	1,025

Details of directors' emoluments are as follows:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Provident fund contributions HK\$'000	Total remuneration HK\$'000
For the six months period ended 30 June 2016				
KHABRAT	—	—	—	—
REN GANG	—	192	—	192
LI DEFU	—	245	—	245
GINZBURG MARK	—	—	—	—
SHVALYUK	—	239	—	239
LU JUNHUA	—	313	—	313
ZHANG QIKUN	—	36	—	36
ANTONOV	—	—	—	—
POMORTCEV	—	—	—	—
TSOKOLAEV	—	—	—	—
	—	1,025	—	1,025

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	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Provident fund contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
For the six months period ended 30 June 2015 (unaudited)				
KHABRAT	—	—	—	—
REN GANG	—	—	—	—
LI DEFU	—	381	—	381
GINZBURG MARK	—	302	—	302
SHVALYUK	—	223	—	223
LU JUNHUA	—	312	—	312
ZHANG QIKUN	—	39	—	39
ANTONOV	—	—	—	—
TSOKOLAEV	—	—	—	—
SHI CHONGQING	—	—	—	—
JI XINGMIN	—	—	—	—
XU JIMENG	—	—	—	—
	<u>—</u>	<u>1,257</u>	<u>—</u>	<u>1,257</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Provident fund contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2015				
KHABRAT	—	—	—	—
REN GANG	—	—	—	—
LI DEFU	—	824	—	824
GINZBURG MARK	—	658	—	658
SHVALYUK	—	469	—	469
LU JUNHUA	—	644	—	644
ZHANG QIKUN	—	76	—	76
ANTONOV	—	—	—	—
TSOKOLAEV	—	—	—	—
SHI CHONGQING	—	—	—	—
JI XINGMIN	—	—	—	—
XU JIMENG	—	—	—	—
	<u>—</u>	<u>2,671</u>	<u>—</u>	<u>2,671</u>

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	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Provident fund contributions HK\$'000	Total remuneration HK\$'000
Year ended 31 December 2014				
KHABRAT	—	—	—	—
LI DEFU	—	1,041	—	1,041
GINZBURG MARK	—	812	—	812
SHVALYUK	—	560	—	560
LU JUNHUA	—	709	—	709
ZHANG QIKUN	—	78	—	78
SHI CHONGQING	—	—	—	—
ANTONOV	—	—	—	—
KOTOV	—	—	—	—
JI XINGMIN	—	—	—	—
XU JIMENG	—	—	—	—
	—	3,200	—	3,200

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Provident fund contributions HK\$'000	Total remuneration HK\$'000
Year ended 31 December 2013				
KHABRAT	—	—	—	—
LI DEFU	—	752	—	752
GINZBURG MARK	—	348	—	348
SHVALYUK	—	638	—	638
LU JUNHUA	—	537	—	537
ZHANG QIKUN	—	76	—	76
SHI CHONGQING	—	—	—	—
ANTONOV	—	—	—	—
KOTOV	—	—	—	—
JI XINGMIN	—	—	—	—
XU JIMENG	—	—	—	—
	—	2,351	—	2,351

(b) Five highest paid individuals

Of the five individuals with highest emoluments, 4, 3, 3, 2 and 1 were directors of the Target Group for the year ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016 respectively whose emoluments are disclosed in Note 13(a). The emoluments in respect of the remaining 1, 2, 2, 3 and 4 individual other than directors are as follows:

	For the year ended 31 December 2013 HK\$'000	For the year ended 31 December 2014 HK\$'000	For the year ended 31 December 2015 HK\$'000	Six months ended 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Salaries, allowances and benefit in kind	484	1,353	1,376	956	1,272

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The emoluments of the above individuals exclude directors with the highest emoluments are within the following salaries band:

	Number of individuals				
	For the year ended 31 December 2013	For the year ended 31 December 2014	For the year ended 31 December 2015	Six months ended 30 June 2015	Six months ended 30 June 2016
Nil to HK\$1,000,000	1	2	2	3	4
HK\$1,000,000 to HK\$2,000,000	—	—	—	—	—
	<u>1</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>4</u>

During the years ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, no emoluments were paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. There was no director of the Company and the five highest paid individuals agreed to waive or waived any emoluments during the years ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016.

14. DIVIDEND

The directors of the Target Group do not recommend the payment of any dividend in respect of the Relevant Periods.

15. LAND USE RIGHT

The Target Group's interests in land use rights represent prepaid operating lease payments and their net carrying values are analysed as follows:

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
In the PRC, held on:				
Medium term leases	<u>69,385</u>	<u>65,960</u>	<u>59,629</u>	<u>56,926</u>
Current assets	3,038	3,019	2,860	2,797
Non-current assets	<u>66,347</u>	<u>62,941</u>	<u>56,769</u>	<u>54,129</u>
	<u>69,385</u>	<u>65,960</u>	<u>59,629</u>	<u>56,926</u>

Notes:

- (i) As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, land use rights with a carrying amount of approximately HK\$67,809,000, HK\$64,455,000, HK\$58,260,000 and HK\$55,615,000 have been pledged to secure bank borrowings (Note 24).
- (ii) During the years ended 31 December 2013, 2014 and 2015 and for the period ended 30 June 2016, due to the suspension of production and the declining performance of the fertilizer business, the Target Group carried out an impairment testing on the land use right. The recoverable amounts of the land use right was its fair value less costs of disposal categorized under level 3 measurement which has been determined with the market approach.

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16. PROPERTY, PLANT AND EQUIPMENT

	Fixture & office equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold land & buildings <i>HK\$'000</i>	Construction in-progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
As at 1 January 2013	13,589	1,073,384	29,959	416,609	16,076	1,549,617
Additions	955	14,864	13,514	4,261	33,679	67,273
Transfers	7	27,685	—	21,051	(48,743)	—
Disposals/written off	(3,661)	(49,828)	(14,187)	(3,624)	—	(71,300)
Exchange realignment	419	35,887	995	14,258	336	51,895
As at 31 December 2013 and 1 January 2014	11,309	1,101,992	30,281	452,555	1,348	1,597,485
Additions	5,657	22,351	5,478	5,212	57,754	96,452
Transfers	—	9,275	—	344	(9,619)	—
Disposals/written off	(372)	(6,850)	(992)	(14)	—	(8,228)
Exchange realignment	(71)	(6,650)	(184)	(2,729)	(30)	(9,664)
As at 31 December 2014 and 1 January 2015	16,523	1,120,118	34,583	455,368	49,453	1,676,045
Additions	5,026	29,529	1,907	5,311	84,151	125,924
Transfers	—	54,632	—	5,153	(59,785)	—
Disposals/written off	(806)	(10,022)	(2,550)	(1,152)	—	(14,530)
Exchange realignment	(1,039)	(62,104)	(1,802)	(24,427)	(3,286)	(92,658)
As at 31 December 2015 and 1 January 2016	19,704	1,132,153	32,138	440,253	70,533	1,694,781
Additions	516	8,488	—	4,154	7,686	20,844
Transfers	—	—	—	70	(70)	—
Disposals/written off	(87)	(25,598)	(1,619)	—	—	(27,304)
Exchange realignment	(440)	(24,595)	(678)	(9,751)	(1,519)	(36,983)
As at 30 June 2016	19,693	1,090,448	29,841	434,726	76,630	1,651,338

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	Fixture & office equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold land & buildings <i>HK\$'000</i>	Construction in-progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Accumulated depreciation and impairment						
As at 1 January 2013	10,816	667,381	16,726	126,701	—	821,624
Charge for the year	418	58,388	2,538	13,228	—	74,572
Disposals	(3,258)	(31,966)	(10,879)	(1,006)	—	(47,109)
Impairment	776	156,927	2,413	41,022	75	201,213
Exchange realignment	335	24,834	481	4,962	—	30,612
As at 31 December 2013 and 1 January 2014	9,087	875,564	11,279	184,907	75	1,080,912
Charge for the year	639	36,213	2,346	18,687	—	57,885
Disposals	(327)	(4,657)	(802)	—	—	(5,786)
Impairment	34	2,303	—	157	3,227	5,721
Exchange realignment	(55)	(5,290)	(69)	(1,123)	—	(6,537)
As at 31 December 2014 and 1 January 2015	9,378	904,133	12,754	202,628	3,302	1,132,195
Charge for the year	1,773	22,733	2,609	15,115	—	42,230
Disposals	(562)	(443)	(2,014)	(20)	—	(3,039)
Impairment	147	—	—	—	2,867	3,014
Exchange realignment	(549)	(48,650)	(697)	(11,301)	—	(61,197)
As at 31 December 2015 and 1 January 2016	10,187	877,773	12,652	206,422	6,169	1,113,203
Charge for the year	1,090	4,872	1,135	8,976	—	16,073
Disposals	(78)	(20,705)	(1,046)	—	—	(21,829)
Impairment	1	17,045	—	6,750	1,558	25,354
Exchange realignment	(241)	(19,318)	(280)	(4,809)	—	(24,648)
As at 30 June 2016	10,959	859,667	12,461	217,339	7,727	1,108,153
Net carrying values						
As at 30 June 2016	8,734	230,781	17,380	217,387	68,903	543,185
As at 31 December 2015	9,517	254,380	19,486	233,831	64,364	581,578
As at 31 December 2014	7,145	215,985	21,829	252,740	46,151	543,850
As at 31 December 2013	2,222	226,428	19,002	267,648	1,273	516,573

The cost of plant and machinery for the production of fertilisers is depreciated on the straight-line basis over the estimated useful lives of the assets. Management estimates the useful lives of the production lines to be within 8 to 15 years. Changes in the expected level of usage and technological developments could impact the economic useful lives of the plant and machinery and therefore depreciation charges could be changed in line with revisions to the expected economic useful lives.

- (i) As at 31 December 2013, 2014, 2015 and period ended 30 June 2016, property, plant and equipment with carrying amounts of approximately HK\$262,662,000, HK\$256,083,000, HK\$250,251,000 and HK\$276,369,000 respectively have been pledged to secure bank borrowings (Note 24).
- (ii) As the result of the suspension of production and the declining performance of the fertilizer business during the year ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, the Target Group considered these were indications for impairment of the property, plant and equipment. Target Group considered these were indications for impairment of the property, plant and equipment. The Target Group carried out an impairment testing on the property, plant and equipment of the fertilizer segment.

The Target Group assessed the recoverable amounts of these property, plant and equipment as at 31 December 2013, 2014, 2015 and 30 June 2016 which their carrying amounts was written down to their recoverable amounts of approximately HK\$516,573,000, HK\$543,850,000, HK\$581,578,000 and HK\$543,185,000 respectively. An impairment loss of approximately HK\$201,213,000, HK\$5,721,000, HK\$3,014,000 and HK\$25,354,000 was recognised to the consolidated statement of profit or loss and other comprehensive income.

The recoverable amounts of the property, plant and equipment was its fair value less cost to disposal categorized under level 3 measurement which has been determined with the combination of both market approach and cost approach.

In the market approach, the fair value of property, plant and equipment is estimated through analysis of recent sales of comparable items of property, plant and equipment with adjustments made to the indicated market price to reflect condition and utility of the assets valued relative to the market comparable.

In the cost approach, the fair value of property, plant and equipment is estimated through analysis of the costs to reproduce or replace in new conditions of an asset in accordance with the market prices of similar assets, with allowance for accrued depreciation, taking into consideration past and present maintenance policy and rebuilding history if any.

17. INTANGIBLE ASSETS

	Trademark <i>HK\$'000</i>
Cost	
As at 1 January 2013	11,692
Additions	1,245
Exchange realignment	<u>424</u>
As at 31 December 2013 and 1 January 2014	13,361
Additions	—
Exchange realignment	<u>(80)</u>
As at 31 December 2014 and 1 January 2015	13,281
Additions	—
Exchange realignment	<u>(702)</u>
As at 31 December 2015 and 1 January 2016	12,579
Additions	—
Exchange realignment	<u>(277)</u>
As at 30 June 2016	<u>12,302</u>
Accumulated amortisation	
As at 1 January 2013	5,651
Charge for the year	1,297
Exchange realignment	<u>207</u>
As at 31 December 2013 and 1 January 2014	7,155
Charge for the year	1,328
Exchange realignment	<u>(43)</u>
As at 31 December 2014 and 1 January 2015	8,440
Charge for the years	1,310
Exchange realignment	<u>(499)</u>
As at 31 December 2015 and 1 January 2016	9,251
Charge for the year	626
Exchange realignment	<u>(214)</u>
As at 30 June 2016	<u>9,663</u>
Net carrying values	
As at 30 June 2016	<u><u>2,639</u></u>
As at 31 December 2015	<u><u>3,328</u></u>
As at 31 December 2014	<u><u>4,841</u></u>
As at 31 December 2013	<u><u>6,206</u></u>

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Note:

During the years ended 31 December 2013, 2014 and 2015 and for the period ended 30 June 2016, due to the suspension of production and the declining performance of the fertilizer business, the Target Group carried out an impairment testing on the intangible assets. The recoverable amounts of the intangible assets have been determined based on capitalization of the net earnings that would be generated if a specific stream of income can be attributed to an asset or a group of assets.

18. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 30 June 2016 are as follow:

Name	Place of incorporation and operation, and kind of legal entities	Principal activities and place of operation	Participation of issued share/paid up registered capital	Proportion of ownership interest held by the company Directly				Proportion of voting power held			
				2016	2015	2014	2013	2016	2015	2014	2013
Shandong Zhongfu Compound Fertilizers Company Limited	The PRC, limited liability company	Sales of fertilizer	Registered and paid up capital of 5,000,000	100%	100%	100%	100%	100%	100%	100%	100%
Linyi Ding Rui Construction Materials Company Limited	The PRC, limited liability company	Dormant	Registered and paid up capital of 5,000,000	100%	100%	100%	100%	100%	100%	100%	100%
Linyi City — Luo Zhuang Qu Antai Real Estate Service Company Limited	The PRC, limited liability company	Dormant	Registered and paid up capital of 500,000	100%	100%	100%	100%	100%	100%	100%	100%

The statutory financial statements of the Target Company were prepared in accordance with the relevant accounting principles applicable to the Target Company in the country in which it was incorporated and/or established. The statutory financial statements of the Target Company for the years ended 31 December 2013, 2014 and 2015 were audited by Shandong Tianhengxin Certified Public Accountants Co., Ltd (山東天恒信有限責任會計師事務所).

The statutory financial statements of the Shandong Zhongfu Compound Fertilizers Company Limited were prepared in accordance with the relevant accounting principles applicable to the Shandong Zhongfu Compound Fertilizers Company Limited in the country in which it was incorporated and/or established. The statutory financial statements of the Shandong Zhongfu Compound Fertilizers Company Limited for the years ended 31 December 2013, 2014 and 2015 were audited by Shandong Tianhengxin Certified Public Accountants Co., Ltd (山東天恒信有限責任會計師事務所).

The statutory financial statements of the Linyi Ding Rui Construction Materials Company Limited were prepared in accordance with the relevant accounting principles applicable to the Linyi Ding Rui Construction Materials Company Limited in the country in which it was incorporated and/or established. The statutory financial statements of the Linyi Ding Rui Construction Materials Company Limited for the years ended 31 December 2013, 2014 and 2015 were audited by Shandong Tianhengxin Certified Public Accountants Co., Ltd (山東天恒信有限責任會計師事務所).

The statutory financial statements of the Linyi City — Luo Zhuang Qu Antai Real Estate Service Company Limited were prepared in accordance with the relevant accounting principles applicable to the Linyi City — Luo Zhuang Qu Antai Real Estate Service Company Limited in the country in which it was

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incorporated and/or established. The statutory financial statements of the Linyi City — Luo Zhuang Qu Antai Real Estate Service Company Limited for the years ended 31 December 2013, 2014 and 2015 were audited by Shandong Tianhengxin Certified Public Accountants Co., Ltd (山東天恒信有限責任會計師事務所).

19. INVENTORIES

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Raw materials	102,017	214,533	86,118	23,611
Work in progress	25,584	53,431	41,176	39,024
Finished goods	159,395	125,010	217,051	61,984
	<u>286,996</u>	<u>392,974</u>	<u>344,345</u>	<u>124,619</u>

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Trade receivables	113,430	86,454	142,961	37,887
Impairment	(9,756)	(14,396)	(26,387)	(24,917)
	<u>103,674</u>	<u>72,058</u>	<u>116,574</u>	<u>12,970</u>
Bills receivables (note i)	1,218	41,850	14,179	583
Prepayments and deposits	139,144	184,124	57,801	55,004
Other receivables (note ii)	22,819	21,178	39,222	28,827
	<u>266,855</u>	<u>319,210</u>	<u>227,776</u>	<u>97,384</u>

Notes:

- i. As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, bills receivables of approximately HK\$1,218,000, HK\$41,850,000, HK\$14,179,000 and HK\$583,000 will be matured within six months after the end of each of the Relevant Periods. All the bills receivables are denominated in RMB.
- ii. As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, other receivables mainly comprised of value-added tax recoverable in the PRC of approximately HK\$503,000, HK\$7,236,000, HK\$19,404,000 and HK\$76,000.

As at 31 December 2013 and 2015 and the period ended 30 June 2016, impairment of approximately HK\$11,554,000, HK\$4,461,000, HK\$3,588,000 and HK\$9,454,000 include in of the other receivables are past due and impaired. As at 31 December 2014 and 2015 and the period ended 30 June 2016, reversal of impairment on other receivables are approximately HK\$6,759,000, HK\$1,254,000 and HK\$4,049,000.

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As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, the ageing analysis of the trade receivables after provision of impairment of the Target Group presented based on the invoice date was as follows:

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
0–90 days	82,471	39,845	99,610	2,745
91–180 days	19,775	30,147	16,580	1,837
181–365 days	1,428	2,066	384	8,388
	<u>103,674</u>	<u>72,058</u>	<u>116,574</u>	<u>12,970</u>

The Group allows a credit period normally not more than 90 days to its trade customers.

Impairment losses in respect of trade receivables are recorded using an allowance amount unless the Target Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Target Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Target Group does not hold any collateral over these balances.

The movements in the provision for impairment of trade receivables are as follows:

	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
At the beginning of the year	9,433	9,756	14,396	26,387
Impairment losses recognised	7	5,390	14,740	590
Reversal of impairment	—	(689)	(1,466)	(1,496)
Exchange alignment	316	(61)	(1,283)	(564)
At the end of the year	<u>9,756</u>	<u>14,396</u>	<u>26,387</u>	<u>24,917</u>

As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$7,000, HK\$4,701,000, HK\$13,274,000 and HK\$Nil with a gross carrying amount of HK\$103,674,000, HK\$72,058,000, HK\$116,574,000 and HK\$12,970,000. The individually impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

Ageing analysis of trade receivables which are past due but not impaired:

	Total HK\$'000	Neither past due nor impaired HK\$'000	Past due but not impaired 91–180 days HK\$'000	181–365 days HK\$'000	Over 365 days HK\$'000
30 June 2016	12,970	2,745	1,837	8,388	24,917
31 December 2015	116,574	99,610	16,580	384	26,387
31 December 2014	72,058	39,845	30,147	2,066	14,396
31 December 2013	103,674	82,471	19,775	1,428	9,756

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21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 31 December 2013 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 30 June 2016 <i>HK\$'000</i>
Held for trading (<i>Note</i>)	87,081	26,474	31,057	—

Note:

At the end of each of the Relevant Periods, the financial assets at fair value through profit or loss represent principal and return-protected financial products issued by several financial institutions in the PRC. These financial products were all matured within one year and were classified as current assets.

The directors of the Target Company recognised the fair value of the financial products as at the end of Relevant Periods with reference to the discounted of expected return provided by those financial institutions.

22. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, deposits with banks of approximately HK\$22,732,000, HK\$51,474,000, HK\$134,965,000 and HK\$140,058,000 have been pledged to secure bank borrowings (*Note* 24).

At the end of the reporting period, cash and cash equivalents comprise of the followings were denominated in RMB:

	As at 31 December 2013 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 30 June 2016 <i>HK\$'000</i>
Cash and cash equivalents	28,668	46,953	25,495	21,042
Pledged bank deposits	22,732	51,474	134,965	140,058
	<u>51,400</u>	<u>98,427</u>	<u>160,460</u>	<u>161,100</u>

At the end of the reporting period, the weighted effective interest rate on short-term bank deposits was 0.35–0.42%; these deposits have an average maturity of less than three months.

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

23. TRADE AND OTHER PAYABLES

	As at 31 December 2013 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 30 June 2016 <i>HK\$'000</i>
Trade payables	134,518	137,100	143,831	52,672
Bills payables	44,390	102,870	269,856	221,882
Receipts in advance	338,627	226,103	319,253	68,275
Accruals and other payables	127,576	94,081	112,206	254,409
	<u>645,111</u>	<u>560,154</u>	<u>845,146</u>	<u>597,238</u>

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Notes:

As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, accruals and other payables mainly comprised accrued salaries and benefit of approximately HK\$34,532,000, HK\$33,055,000, HK\$28,350,000 and HK\$45,777,000 and other tax payable of approximately of HK\$2,656,000, HK\$3,923,000, HK\$3,744,000 and HK\$3,293,000.

At the end of the reporting period, the ageing analysis of trade payables of the Target Group presented based on the invoice date was as follows:

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Within 90 days	33,609	51,474	46,181	29,299
91 to 180 days	32,166	33,536	23,207	8,336
181 to 365 days	16,467	5,921	15,065	8,265
Over 365 days	<u>52,276</u>	<u>46,169</u>	<u>59,378</u>	<u>6,772</u>
	<u>134,518</u>	<u>137,100</u>	<u>143,831</u>	<u>52,672</u>

The average credit period on purchases of goods as at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016 is 0–90 days. The Target Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. BORROWINGS

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Bank borrowings — secured	<u>388,675</u>	<u>608,899</u>	<u>444,187</u>	<u>426,246</u>
	<u>388,675</u>	<u>608,899</u>	<u>444,187</u>	<u>426,246</u>
Borrowings:				
Within one year	354,431	581,164	429,858	426,246
More than one year but not exceeding five years	34,244	27,735	14,329	—
More than five years	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>388,675</u>	<u>608,899</u>	<u>444,187</u>	<u>426,246</u>

All borrowings were denominated RMB.

Notes:

As at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016, the borrowings with aggregate amounts of to approximately HK\$190,245,000, HK\$208,009,000, HK\$193,437,000 and HK\$235,895,000 respectively were secured by land use right, property, plant and equipment, and deposits with banks of the Group (Note 15, 16 and 22). As at 31 December 2013, 2014 and 2015 and 30 June 2016, the secured borrowings of approximately HK\$198,430,000, HK\$350,464,000, HK\$226,869,000 and HK\$190,351,000 were guaranteed by the corporate guarantee.

As at 31 December 2014 and 2015, borrowing approximately HK\$50,426,000 and HK\$23,881,000 granted to a subsidiary of Target Company were guarantee by the Target Group.

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The weighted average effective interest rate of bank borrowing and other borrowings as at at 31 December 2013, 2014 and 2015 and the period ended 30 June 2016 was 6.64%, 6.91%, 6.03% and 5.19%.

25. FINANCIAL GUARANTEE LIABILITIES

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group has executed financial guarantees to certain banks for credit facilities granted to several independent third parties, which amounted to approximately RMB250,000,000, RMB403,000,000, RMB312,000,000 and RMB220,000,000 respectively was required to be paid if the guarantees were called upon in entirety.

At the end of the Relevant Periods, amounts of HK\$28,672,000, HK\$96,228,000, HK\$70,509,000 and HK\$48,625,000 respectively has been recognized in the consolidated statement of financial position.

26. PAID-IN CAPITAL

	As at 31 December 2013 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 30 June 2016 <i>HK\$'000</i>
Registered capital:				
At beginning of the year/period and at end of the year/period	<u>122,340</u>	<u>122,340</u>	<u>122,340</u>	<u>122,340</u>
	As at 31 December 2013 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 30 June 2016 <i>HK\$'000</i>
Paid-in capital:				
At beginning of the year/period and at end of the year/period	<u>122,340</u>	<u>122,340</u>	<u>122,340</u>	<u>122,340</u>

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27. STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

(a) Statement of financial position

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Non-current assets				
Interest in subsidiaries	13,317	13,237	12,538	12,262
Land use right	66,347	62,941	56,769	54,129
Property, plant and equipment	511,816	539,559	577,861	539,760
Intangible assets	<u>6,206</u>	<u>4,841</u>	<u>3,328</u>	<u>2,639</u>
	<u>597,686</u>	<u>620,578</u>	<u>650,496</u>	<u>608,790</u>
Current assets				
Trade and other receivables, prepayments and deposits	266,475	319,204	227,770	97,776
Amounts due from subsidiaries	893	1,399	1,933	6,152
Inventories	286,892	392,861	344,237	124,529
Land use right	3,038	3,019	2,860	2,797
Financial assets at fair value through profit and loss	87,082	26,474	31,057	—
Pledged bank deposits	22,732	51,474	134,965	140,058
Cash and cash equivalents	<u>28,272</u>	<u>46,916</u>	<u>25,444</u>	<u>21,030</u>
	<u>695,384</u>	<u>841,347</u>	<u>768,266</u>	<u>392,342</u>
Current liabilities				
Trade and other payables	638,128	554,108	843,236	595,794
Financial guarantee liabilities	28,672	96,228	70,509	48,625
Amounts due to subsidiaries	6,013	53,585	20,146	—
Borrowings	354,431	530,738	405,977	426,246
Dividend payable	<u>833</u>	<u>828</u>	<u>784</u>	<u>766</u>
	<u>1,028,077</u>	<u>1,235,487</u>	<u>1,340,652</u>	<u>1,071,431</u>
Net current liabilities	<u>(332,693)</u>	<u>(394,140)</u>	<u>(572,386)</u>	<u>(679,089)</u>
Total assets less current liabilities	<u>264,993</u>	<u>226,438</u>	<u>78,110</u>	<u>(70,299)</u>
Non-current liabilities				
Borrowings	<u>34,244</u>	<u>27,735</u>	<u>14,329</u>	<u>—</u>
Net assets/(liabilities)	<u>230,749</u>	<u>198,703</u>	<u>63,781</u>	<u>(70,299)</u>
Capital and reserves				
Paid-in capital	122,340	122,340	122,340	122,340
Reserves	<u>108,409</u>	<u>76,363</u>	<u>(58,559)</u>	<u>(52,041)</u>
	<u>230,749</u>	<u>198,703</u>	<u>63,781</u>	<u>(70,299)</u>

The accompanying notes form an integral part of the Financial Information.

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(b) Reserve

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013	122,340	52,481	239,681	—	(30,545)	383,957
Loss for the year	—	—	—	—	(201,810)	(201,810)
Exchange difference arising from translation of foreign operations	—	—	—	48,602	—	48,602
Total comprehensive income/ (loss) for the year	—	—	—	48,602	(201,810)	(153,208)
At 31 December 2013 and 1 January 2014	122,340	52,481	239,681	48,602	(232,355)	230,749
Loss for the year	—	—	—	—	(30,670)	(30,670)
Exchange difference arising from translation of foreign operations	—	—	—	(1,376)	—	(1,376)
Total comprehensive loss for the year	—	—	—	(1,376)	(30,670)	(32,046)
At 31 December 2014 and 1 January 2015	122,340	52,481	239,681	47,226	(263,025)	198,703
Loss for the year	—	—	—	—	(129,525)	(129,525)
Exchange difference arising from translation of foreign operations	—	—	—	(5,397)	—	(5,397)
Total comprehensive loss for the year	—	—	—	(5,397)	(129,525)	(134,922)
At 31 December 2015 and 1 January 2016	122,340	52,481	239,681	41,829	(392,550)	63,781
Loss for the year	—	—	—	—	(135,004)	(135,004)
Exchange difference arising from translation of foreign operations	—	—	—	924	—	924
Total comprehensive income/ (loss) for the year	—	—	—	924	(135,004)	(134,080)
At 30 June 2016	<u>122,340</u>	<u>52,481</u>	<u>239,681</u>	<u>42,753</u>	<u>(527,554)</u>	<u>(70,299)</u>

28. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the Target Group had entered into the following related party transactions, which in the opinion of the directors of the Target Group, were carried out on normal commercial terms and in the ordinary course of business.

Key management compensation for the year ended 31 December 2013, 2014 and 2015 and the period ended 30 June 2016 was disclosed in Note 13.

The Group had the following material transactions with related parties during the year:

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Sales of fertilizer to the company with common director: Beijing Yong Sheng Feng AMP Co., Ltd. (北京永盛豐農資有限公司)	4,926	111,172	—	—
Purchase of fertilizer to the company with common director: Beijing Yong Sheng Feng AMP Co., Ltd.	<u>1,892</u>	<u>4,317</u>	<u>—</u>	<u>—</u>

Note: KHABRAT is the sole director of Beijing Yong Sheng Feng AMP Co., Ltd..

29. COMMITMENT

(a) Capital commitment

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Capital expenditure in respect of construction in progress contract for but not provided in the financial information	<u>1,661</u>	<u>5,873</u>	<u>10,051</u>	<u>9,706</u>

(b) Operating lease commitment

The Target Group as Lessee

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group had outstanding commitments payable under non-cancellable operating leases in respect of properties rented which fall due as follows:

	As at 31 December 2013 HK\$'000	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 30 June 2016 HK\$'000
Within one year	—	—	155	157
In the second to fifth years inclusive	<u>—</u>	<u>—</u>	<u>149</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>304</u>	<u>157</u>

APPENDIX II ACCOUNTANTS' REPORT OF HONGRI ACRON GROUP

The Target Group as Lessor

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group had outstanding commitments receivable under non-cancellable operating leases in respect of properties rented which fall due as follows:

	As at 31 December 2013 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 30 June 2016 <i>HK\$'000</i>
Within one year	—	19	115	71
In the second to fifth years inclusive	—	—	—	—
	<u>—</u>	<u>19</u>	<u>115</u>	<u>71</u>

30. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the Circular, the following events took place subsequent to 30 June 2016:

On 7 September 2016, the Target Group has renewed the pollutants discharge permit, which is issued by Linyi City Environmental Protection Department (臨沂市環境保護局).

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2016.

Yours faithfully
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Wong Sze Wai, Basilia
 Practising Certificate number: P05806
 Hong Kong

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of our Company, HLB Hodgson Impey Cheng Limited, set out in Appendix II "Accountants' Report on the Target Group" to this circular and is included herein for information only.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 September 2016

The Board of Directors
Century Sunshine Group Holdings Limited
Unit 3907, 39/F, Cosco Tower,
183 Queen's Road Central,
Hong Kong

Dear Sirs,

Independent Reporting Accountants' Assurance Report on the Compilation of Pro Forma Financial Information included in an investment circular

To the Directors of Century Sunshine Group Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Century Sunshine Group Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") together with Shandong Hongri Acron Chemical Joint Stock Company, Ltd (the "**Target Company**") and its subsidiaries (the "**Target Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2016 and related notes as set out on pages III-5 to III-8 of the circular dated 27 September 2016 (the "**Circular**") issued by the Company (the "**Pro Forma Financial Information**") in connection with the proposed acquisition of 50.5% of the issued share capital of the Target Company by a wholly-owned subsidiary of the Company (the "**Proposed Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix III to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's assets and liabilities as at 30 June 2016 as if the Proposed Acquisition had taken place on 30 June 2016. As part of this process, information about the Group's assets and liabilities has been extracted by the Directors from the Group's financial statements for the year ended 30 June 2016, on which no audit or review

report has been published. Information about the Target Group's assets and liabilities have been extracted by the Directors from the Target Group's financial information as at 30 June 2016, on which an accountants' report has been published in Appendix II to the Circular.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control "1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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The purpose of the pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Wong Sze Wai, Basilia
Practising Certificate Number: P05806
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2016 (the “**Unaudited Pro Forma Financial Information**”) which has been prepared on the basis of the notes set forth below for the purpose of illustrating the effects of the proposed acquisition of the entire issued share capital of the Target Company (the “**Proposed Acquisition**”), as if the Proposed Acquisition had been completed on 30 June 2016.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, based on their judgements, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Enlarged Group had the Proposed Acquisition been completed on 30 June 2016 or any future date.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 included in the published 2016 interim report of the Company dated on 31 August 2016 and the audited consolidated statement of financial position of the Target Group as at 30 June 2016 as set out in the Accountants’ Report in Appendix II to this circular after giving effect to the unaudited pro forma adjustments as described in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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(2) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 30 June 2016 <i>HK\$'000</i> <i>(Note 1)</i>	The Target Group as at 30 June 2016 <i>HK\$'000</i> <i>(Note 2)</i>	Sub-total <i>HK\$'000</i>	Pro forma adjustment <i>HK\$'000</i> <i>(Note 3)</i> <i>HK\$'000</i> <i>(Note 4)</i>		Unaudited pro forma total for the Enlarged Group as at 30 June 2016 <i>HK\$'000</i>
Non-current assets						
Land use rights	205,487	54,129	259,616	34,189	—	293,805
Property, plant and equipment	1,807,801	543,185	2,350,986	—	—	2,350,986
Investment properties	120,911	—	120,911	—	—	120,911
Goodwill	197,144	—	197,144	—	—	197,144
Intangible assets	1,550	2,639	4,189	327,822	—	332,011
Mining right	493,935	—	493,935	—	—	493,935
Payment for acquisition of patents	52,417	—	52,417	—	—	52,417
Deposit for acquisition of property, plant and equipment	62,576	—	62,576	—	—	62,576
Investments in joint ventures	4,976	—	4,976	—	—	4,976
Investment in associate	18	—	18	—	—	18
Available-for-sale investments	87,887	—	87,887	—	—	87,887
	<u>3,034,702</u>	<u>599,953</u>	<u>3,634,655</u>			<u>3,996,666</u>
Current assets						
Available-for-sale investments	8,537	—	8,537	—	—	8,537
Inventories	245,993	124,619	370,612	—	—	370,612
Land use rights	5,116	2,797	7,913	1,767	—	9,680
Trade and other receivables, prepayments and deposits	590,786	97,384	688,170	—	—	688,170
Income tax recoverable	1,786	—	1,786	—	—	1,786
Investments held for trading	10,899	—	10,899	—	—	10,899
Derivatives financial assets	—	—	—	—	—	—
Amounts due from a joint venture	295	—	295	—	—	295
Pledged bank deposits	—	140,058	140,058	—	—	140,058
Bank and cash balances	1,803,651	21,042	1,824,693	—	(7,324)	1,817,369
	<u>2,667,063</u>	<u>385,900</u>	<u>3,052,963</u>			<u>3,047,406</u>

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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	The Group as at 30 June 2016 <i>HK\$'000</i> <i>(Note 1)</i>	The Target Group as at 30 June 2016 <i>HK\$'000</i> <i>(Note 2)</i>	Sub-total <i>HK\$'000</i>	Pro forma adjustment <i>HK\$'000</i> <i>(Note 3)</i> <i>HK\$'000</i> <i>(Note 4)</i>		Unaudited pro forma total for the Enlarged Group as at 30 June 2016 <i>HK\$'000</i>
Current liabilities						
Trade and other payables	524,130	597,238	1,121,368	—	—	1,121,368
Financial guarantee liabilities	—	48,625	48,625	—	—	48,625
Dividend payable	—	766	766	—	—	766
Income tax payable	50,330	—	50,330	—	—	50,330
Borrowings	296,936	426,246	723,182	—	—	723,182
Convertible bonds	—	—	—	—	—	—
	<u>871,396</u>	<u>1,072,875</u>	<u>1,944,271</u>			<u>1,944,271</u>
Net current assets/ (liabilities)	<u>1,795,667</u>	<u>(686,975)</u>	<u>1,108,692</u>			<u>1,103,135</u>
Total assets less current liabilities	<u>4,830,369</u>	<u>(87,022)</u>	<u>4,743,347</u>			<u>5,099,801</u>
Less: Non-current liabilities						
Derivative financial liabilities	2,180	—	2,180	—	—	2,180
Deferred revenue	67,885	—	67,885	—	—	67,885
Borrowings	1,496,710	—	1,496,710	—	—	1,496,710
Deferred tax liabilities	112,265	—	112,265	90,944	—	203,209
	<u>1,679,040</u>	<u>—</u>	<u>1,679,040</u>			<u>1,769,984</u>
NET ASSETS/ (LIABILITIES)	<u><u>3,151,329</u></u>	<u><u>(87,022)</u></u>	<u><u>3,063,307</u></u>			<u><u>3,329,817</u></u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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(3) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 as set out in the published interim report of the Group for the six months ended 30 June 2016.
2. The balances are extracted from the consolidated statement of financial position of the Target Group as at 30 June 2016 as set out in the accountants' report of the Target Group in Appendix II to this circular.
3. Upon the completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values under the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 Business Combinations issued by the HKICPA. The gain from bargain purchase arising from the Proposed Acquisition is calculated as follows:

	<i>Notes</i>	<i>HK\$'000</i>
Cash consideration	(i)	—
Less: Fair value of the net liabilities acquired	(ii)	<u>(93,835)</u>
Gain from bargain purchase arising from the Proposed Acquisition	(iii)	<u><u>(93,835)</u></u>

Notes:

- (i) In accordance with the Acquisition Agreement (as defined in this circular), the cash consideration for the Proposed Acquisition is US\$1 (equivalent to approximately HK\$7.76).
- (ii) The Directors have determined that the fair values of the identifiable assets and liabilities (other than land use right and intangible assets) of the Target Group approximate their carrying amounts as at 30 June 2016. The fair values of land use right and intangible assets as at 30 June 2016 are assumed by the Directors to be HK\$92,882,000 and HK\$330,461,000, which represents the aggregation of RMB362,512,000 (equivalent to approximately HK\$423,343,000) with reference to the preliminary valuation as at 30 June 2016 (the "Valuation") performed by an independent valuer. The fair values of the identifiable assets and liabilities of the Target Group are reconciled as follows:

	<i>HK\$'000</i>
Net liabilities of the Target Group as at 30 June 2016	(87,022)
Fair value adjustment on land use right	35,956
Fair value adjustment on intangible assets	327,822
Less: Deferred tax liabilities on fair value adjustment	<u>(90,944)</u>
Total identifiable net assets at fair value	185,812
Non-controlling interests	<u>(91,977)</u>
	<u><u>93,835</u></u>

The difference between the carrying amount of the revalued land use right and intangible assets and its tax base is a temporary difference and gives rises to the deferred tax liability, base on the PRC profit tax rate (25%).

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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- (iii) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, fair values of net assets of the Target Group of HK\$93,835,000 and cash consideration of US\$1 were used to determine the gain from bargain purchase of the Proposed Acquisition. Upon completion of the Proposed Acquisition, the fair values of the net assets of the Target Group and of Consideration as at the date of completion will be used to determine the actual amount of gain from bargain purchase of the Proposed Acquisition. Such actual amount may be different for the amount presented herein and such difference may be significant.

The Directors confirm that consistent policies and assumptions have been applied for the purpose of assessing impairment of goodwill under HKAS 36 Impairment of Assets, and the Directors are not aware of any indication that an impairment of the Enlarged Group's goodwill is required after considering the nature, prospects, financial condition and business risks of the Enlarged Group.

4. For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the transaction expenses, that are directly attributable to the Proposed Acquisition are estimated to be HK\$7,324,000.
5. The translation between HK\$ and RMB had been made at the rate of HK\$1.17 to RMB1. No representation is made that HK\$ have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.
6. No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 30 June 2016, respectively.

*This discussion of the financial position and results of operations of Hongri Acron and its subsidiaries (collectively known as the “**Hongri Acron Group**”) is based upon and should be read in conjunction with the accountants’ report set out in Appendix II to this circular.*

FINANCIAL INFORMATION OF THE HONGRI ACRON GROUP

Results of Operations

The following table sets forth a summary of the financial results of the Hongri Acron Group for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016.

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	2,658,737	2,146,724	1,779,527	944,242	466,475
Cost of sales	<u>(2,378,117)</u>	<u>(1,890,434)</u>	<u>(1,677,325)</u>	<u>(889,098)</u>	<u>(449,165)</u>
Gross profit	280,620	256,290	102,202	55,144	17,310
Other income and gains	45,564	13,146	18,046	23	13,701
Selling and marketing cost	(77,457)	(63,648)	(87,497)	(39,918)	(21,740)
Administrative expenses	(412,065)	(200,805)	(127,633)	(75,996)	(130,262)
Finance costs	<u>(39,452)</u>	<u>(39,242)</u>	<u>(38,648)</u>	<u>(18,055)</u>	<u>(14,873)</u>
Loss before income tax expense	(202,790)	(34,259)	(133,530)	(78,802)	(135,864)
Income tax expense	<u>(4)</u>	<u>(2)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>
Loss for the year/period	<u>(202,794)</u>	<u>(34,261)</u>	<u>(133,531)</u>	<u>(78,802)</u>	<u>(135,864)</u>

Business

The Hongri Acron Group is principally engaged in the fertilizer business in the PRC.

Please refer to the section headed “Information on the Target Group” in the letter from the Board contained in this circular for information on the Hongri Acron Group.

Revenue

The Hongri Acron Group’s revenue solely represents income from the sales of the Hongri Acron Group’s proprietary fertiliser products, net of sales related taxes, in the PRC during the three years ended 31 December 2015 and the six months ended 30 June 2015 and 2016.

Cost of Sales

Cost of sales consists primarily of direct costs of products sold which include direct raw material costs, direct labour costs, depreciation of property, plant and equipment and production overheads.

Gross profit

Gross profit is equal to revenue less cost of sales. Gross margin is equal to gross profit divided by revenue. The gross profit margins of the Hongri Acron Group for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 were approximately 10.55%, 11.94%, 5.74%, 5.84% and 3.71%, respectively.

Other income and gains

Other income gains primarily include (i) interest income; (ii) sales of scrap materials; (iii) government grant; and (iv) sundry income.

Government grant represents PRC government funding received by the Hongri Acron Group in sponsorship of environmental protection and technical development projects and is non-recurring in nature.

Interest income represents interest income from bank deposits.

Selling and marketing cost

Selling and marketing cost consists primarily of (i) distribution costs for fertilizers products; (ii) expenses for conferences, exhibitions and other advertising and marketing activities; (iii) sales commission, bonus and benefits for the sales and marketing staff of the Hongri Acron Group; and (iv) travelling and other selling related expenses of the sales and marketing staff.

Administrative expenses

Administrative expenses consist primarily of (i) compensation, benefits and related expenses for the Hongri Acron Group's research and development, general management, finance and administrative personnel; (ii) impairment loss on property, plant and equipment; (iii) fair value loss/reversal of impairment loss on financial guarantees, details of which has been disclosed in section headed "Financial Information of the Group" in the letter from the Board contained in this circular; (iv) depreciation of property, plant and equipment used for research and development and administrative purposes and rental expenses relating to operating leases of the Hongri Acron Group's trade offices in various cities of the PRC; (v) other taxes including land use tax, property tax and stamp duty; and (vi) other expenses associated with the Hongri Acron Group's general administrative activities.

Finance costs

Finance costs are interest on bank borrowings.

Income tax expense

The provision for PRC Enterprise Income Tax for the Hongri Acron Group in the PRC is based on PRC Enterprise Income Tax rate of 25% of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

Period to Period Comparison of Results of Operations***Six months ended 30 June 2016 compared against six months ended 30 June 2015****Revenue*

Revenue decreased by approximately 50.60% from approximately HK\$944,242,000 for the six months ended 30 June 2015 to approximately HK\$466,475,000 for the six months ended 30 June 2016, primarily due to the temporary reduction of production capacity of Hongri Acron in early 2016 as disclosed in the section headed "Information of Hongri Acron Group" in the letter from the Board contained in this circular.

Cost of sales

Cost of sales decreased by approximately 49.48% from approximately HK\$889,098,000 for the six months ended 30 June 2015 to approximately HK\$449,165,000 for the six months ended 30 June 2016, which was in line with the decrease in revenue for the period.

Gross profit

As a result of the forgoing, gross profit decreased by approximately 68.6% from approximately HK\$55,144,000 for the six months ended 30 June 2015 to approximately HK\$17,310,000 for the six months ended 30 June 2016. Gross profit margin was

approximately 5.84% and approximately 3.71% for the six months ended 30 June 2015 and 2016 respectively, reflecting the impact of underutilization of production capacity during the period.

Other income and gains

Other income and gains increased by approximately HK\$13,678,000 from approximately HK\$23,000 for the six months ended 30 June 2015 to approximately HK\$13,701,000 for the six months ended 30 June 2016. The increase was primarily due to the increase in sales of scrap materials by approximately HK\$11,038,000 for the six months ended 30 June 2016.

Selling and marketing cost

Selling and marketing cost decreased by approximately 45.54% from approximately HK\$39,918,000 for the six months ended 30 June 2015 to approximately HK\$21,740,000 for the six months ended 30 June 2016, primarily due to the decrease in distribution costs following the reduction in production capacity during the period.

Administrative expenses

Administrative expenses increased by approximately 71.4% from approximately HK\$75,996,000 for the six months ended 30 June 2015 to approximately HK\$130,262,000 for the six months ended 30 June 2016, primarily due to the increase in administrative expenses and idle costs associated with the temporary reduction of production capacity during the six months ended 30 June 2016.

Finance costs

Finance costs decreased by approximately HK\$3,182,000 from approximately HK\$18,055,000 for the six months ended 30 June 2015 to approximately HK\$14,873,000 for the six months ended 30 June 2016, primarily due to an decrease in interest as a result of decrease in bank borrowings as at 30 June 2016 compared to the same period in 2015.

Income tax expense

The Hongri Acron Group reported loss before tax for the six months ended 30 June 2015 and 2016 and there was no income tax expense incurred for both periods.

Loss for the Period

As a result of the foregoing, loss for the six months ended 30 June 2016 increased by approximately HK\$57,062,000 from approximately HK\$78,802,000 for the six months ended 30 June 2015 to approximately HK\$135,864,000 for the six months ended 30 June 2016.

Financial year ended 31 December 2015 compared against financial year ended 31 December 2014*Revenue*

Revenue decreased by approximately 17.10% from approximately HK\$2,146,724,000 for the year ended 31 December 2014 to approximately HK\$1,779,527,000 for the year ended 31 December 2015, primarily due to the business interruption due to the environmental inspection by local governments in 2015 as discussed in the section headed “Information of the Hongri Acron Group” in the letter from the Board contained in this circular.

Cost of sales

Cost of sales decreased by approximately 11.27% from approximately HK\$1,890,434,000 for the year ended 31 December 2014 to approximately HK\$1,677,325,000 for the year ended 31 December 2015. The decrease was primarily due to a decrease in sales as well as the production volumes.

Gross profit

Gross profit decreased by approximately 60.12% from approximately HK\$256,290,000 for the year ended 31 December 2014 to approximately HK\$102,202,000 for the year ended 31 December 2015 as a result of lower productivity. Gross profit margin was approximately 11.9% and 5.7% for the years ended 31 December 2014 and 2015 respectively.

Other income and gains

Other income and gains increased by approximately 37.27% from approximately HK\$13,146,000 for the year ended 31 December 2014 to approximately HK\$18,046,000 for the year ended 31 December 2015. The increase was primarily resulted from the increase of gain of approximately HK\$6,138,000 generated from the increased sales of scrap materials.

Selling and marketing cost

Selling and marketing cost increased by approximately 37.47% from approximately HK\$63,648,000 for the year ended 31 December 2014 to approximately HK\$87,497,000 for the year ended 31 December 2015, primarily due to the expansion of sales team in late 2014 from an average sales staff of 168 in 2014 to an average of 284 in 2015.

Administrative expenses

Administrative expenses decreased by approximately 36.44% from approximately HK\$200,805,000 for the year ended 31 December 2014 to approximately HK\$127,633,000 for the year ended 31 December 2015, primarily due to reversal of fair value loss on corporate guarantees of approximately HK\$25,719,000 and reversal of depreciation of approximately HK\$21,798,000.

Finance costs

Finance costs decreased slightly from approximately HK\$39,242,000 for the year ended 31 December 2014 to approximately HK\$38,648,000 for the year ended 31 December 2015 as a result of decrease in bank borrowings of approximately HK\$164,712,000 around the year end of 2015.

Income tax expense

The Hongri Acron Group incurred income tax expenses of approximately HK\$2,000 and HK\$1,000 for the years ended 31 December 2014 and 2015 respectively.

Loss for the year

As a result of the foregoing, loss for the year ended 31 December 2015 increased by approximately HK\$99,270,000 from approximately HK\$34,261,000 for the year ended 31 December 2014 to approximately HK\$133,531,000 for the year ended 31 December 2015.

Financial year ended 31 December 2014 compared against financial year ended 31 December 2013*Revenue*

Revenue decreased by approximately 19.26% from approximately HK\$2,658,737,000 for year ended 31 December 2013 to approximately HK\$2,146,724,000 for the year ended 31 December 2014 due to decrease in sales volume of fertilizers from approximately 834,000 tonnes in 2013 to approximately 737,000 tonnes in 2014, as well as decrease in the selling price from approximately RMB2,500 per tonne in 2013 to approximately RMB2,200 per tonne in 2014 following the decrease in commodity prices in 2014.

Cost of sales

Cost of sales decreased by approximately 20.51% from approximately HK\$2,378,117,000 for year ended 31 December 2013 to approximately HK\$1,890,434,000 for the year ended 31 December 2014, which was in line with the decrease in sales.

Gross profit

As a result of the foregoing, the gross profit decreased from approximately HK\$280,620,000 to approximately HK\$256,290,000 for the year ended 31 December 2014 as compared to the year ended 31 December 2013. Gross profit margin remained stable at approximately 10.55% and 11.94% for the years ended 31 December 2013 and 2014 respectively.

Other income and gains

Other income and gains decreased by approximately 71.15% from approximately HK\$45,564,000 for the year ended 31 December 2013 to approximately HK\$13,146,000 for the year ended 31 December 2014. The decrease was primarily due to (i) the decrease in sales of scrap materials of approximately HK\$31,418,000 for the year ended 31 December 2014; and (ii) the decrease in the government grant of approximately HK\$3,706,000 for the year ended 31 December 2014.

Selling and marketing cost

Selling and marketing cost decreased by approximately 17.83% from approximately HK\$77,457,000 for the year ended 31 December 2013 to approximately HK\$63,648,000 for the year ended 31 December 2014. The decrease was primarily due to the decrease in marketing and promotion expenses from approximately HK\$22,006,000 in 2013 to approximately HK\$17,987,000 in 2014, as well as the decrease in sales commission paid to the sales staff due to the decrease in revenue in 2014.

Administrative expenses

Administrative expenses decreased by approximately 51.27% from approximately HK\$412,065,000 for the year ended 31 December 2013 to approximately HK\$200,805,000 for the year ended 31 December 2014. The decrease was primarily due to the decrease in impairment loss on property, plant and equipment to approximately HK\$5,721,000 in 2014 against the impairment loss of approximately HK\$201,213,000 provided for the obsolete assets following the cessation of production of methanol by Hongri Acron in 2013.

Finance costs

Finance costs was approximately HK\$39,242,000 for the year ended 31 December 2014 and no material fluctuation was noted as compared to approximately HK\$39,452,000 for the year ended 31 December 2013.

Income tax expense

The Hongri Acron Group incurred income tax expenses of approximately HK\$4,000 and HK\$2,000 for the years ended 31 December 2013 and 2014 respectively.

Loss for the year

As a result of the foregoing, the Hongri Acron Group reported improved loss for the year ended 31 December 2014.

Certain Balance Sheet Items***Inventories***

Inventories were one of the key components of the Hongri Acron Group's current assets. The business of the Hongri Acron Group depends on the ability to effectively manage and control inventory levels. The level of inventories, as a percentage of its total current assets, remained stable at approximately 41.27%, 46.78% and 44.92% as at 31 December 2013, 2014 and 2015. As at 30 June 2016, the value of inventories accounted for approximately 32.30% of its total current assets and the decrease in inventory level as compared to that of 2015 was mainly because of the reduction in production capacity for the six months ended 30 June 2016.

Trade and other receivables

Trade and other receivables primarily consist of trade and bills receivables, prepayments and deposits, and other receivables.

Trade and bills receivables were related to products sold on credit and the payment was not yet received. As at 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the Hongri Acron Group had trade and bills receivables amounting to approximately HK\$104,892,000, HK\$113,908,000, HK\$130,753,000 and HK\$13,553,000 respectively.

The Hongri Acron Group allows a credit period of not more than 90 days normally to its trade customers and the Hongri Acron Group recognised impairment losses on trade receivables of approximately HK\$7,000, HK\$4,701,000 and HK\$13,274,000 for the years ended 31 December 2013, 2014 and 2015 respectively and recognised reversal of impairment losses of approximately HK\$906,000 for the six months ended 30 June 2016. In addition, the Hongri Acron Group also recognised impairment losses on other trade receivables of approximately HK\$11,554,000, HK\$2,366,000 and HK\$5,405,000 for the years ended 31 December 2013 and 2015 and the six months ended 30 June 2016 respectively, and recognised reversal of impairment losses of HK\$2,298,000 for the year ended 31 December 2014.

The prepayments and deposit were mainly related to the amounts paid to suppliers for goods and services. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Hongri Acron Group had prepayments and deposits amounting to approximately HK\$139,144,000, HK\$184,124,000, HK\$57,801,000 and HK\$55,004,000 respectively.

Financial Guarantee Liabilities at Fair Value

Financial guarantee liabilities at fair value provided by Hongri Acron to Independent Third Parties in the PRC was approximately HK\$28,672,000, HK\$96,228,000, HK\$70,509,000 and HK\$48,625,000 as at each of 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016. Please refer to the section headed "Financial Information of the Hongri Acron Group" in the letter from the Board contained in this circular for details of the corporate guarantees.

The fair value loss recognised in respect of the corporate guarantees for each of the year ended 31 December 2013 and 2014 was approximately HK\$28,672,000 and HK\$67,556,000 and the Hongri Acron Group reported a reversal of the impairment loss on corporate guarantees of approximately HK\$25,719,000 and HK\$21,884,000 for the year ended 31 December 2015 and six months ended 30 June 2016 respectively.

Liquidity and Financial Resources and Capital Structure

The Hongri Acron Group financed its working capital requirements primarily through a combination of revenue from operations and bank borrowings.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Hongri Acron Group bank balances and cash, including pledged bank deposits of the Hongri Acron Group were approximately HK\$51,400,000, HK\$98,427,000, HK\$160,460,000 and HK\$161,100,000 respectively.

The Hongri Acron Group reported net current liabilities of approximately HK\$333,678,000, HK\$398,270,000, HK\$579,799,000 and HK\$686,975,000 as at 31 December 2013, 2014, 2015 and 30 June 2016. The current ratios (represented by current assets as a ratio of current liabilities) of the Hongri Acron Group were approximately 0.68, 0.68, 0.57 and 0.36 as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively.

Borrowings

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the total amount of bank borrowings including the borrowings within one year and more than one year but not exceeding five years were approximately HK\$388,675,000, HK\$608,899,000, HK\$444,187,000 and HK\$426,246,000 respectively. The bank borrowings of the Hongri Acron Group are denominated in RMB.

The weighted average effective interest rate of bank borrowings for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 was approximately 6.64%, 6.91%, 6.03% and 5.19% respectively.

Details of bank borrowings are set out in note 24 to the accountants' report on the Hongri Acron Group in Appendix II to this circular.

Capital Structure

There was no change in the paid in capital of the Hongri Acron Group during the years ended 31 December 2013, 2014 and 2015, and during the six months ended 30 June 2016 respectively.

Gearing Ratio

The gearing ratio, represented by total liabilities as a percentage of total assets, were approximately 82.8%, 87.2%, 96.6% and 108.8% as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively.

Significant Investments, Capital Expenditures and Commitments

The additions of capital expenditures for the year ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016 were approximately HK\$67,273,000, HK\$96,452,000, HK\$125,924,000 and HK\$20,844,000 respectively. The additions of capital expenditures mainly consisted of plant and machinery as well as construction in progress. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Hongri Acron Group had capital commitments of HK\$1,661,000, HK\$5,873,000, HK\$10,051,000 and HK\$9,706,000 respectively in respect of construction in progress contracted for but not provided in the financial statements.

Save for the additions to property, plant and equipment and capital commitments in respect of construction in progress, there was no other significant investment made or held by the Hongri Acron Group during the period from 1 January 2013 to 30 June 2016. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Hongri Acron Group had no significant capital commitments.

Material Acquisitions and Disposals

There was no major acquisition or disposal by the Hongri Acron Group during the period from 1 January 2013 to 30 June 2016.

Employment and Remuneration Policy

The Hongri Acron Group remunerates their employees by reference to their qualification, experience, responsibilities and the financial performance of the Hongri Acron Group and the current market conditions. Employees of Hongri Acron Group are members of state-managed retirement benefit schemes pursuant to relevant labour rules and regulations in the PRC. The Hongri Acron Group is required to contribute certain percentage of applicable payroll costs to the retirement benefit schemes to fund the benefits.

As at 31 December 2013, 2014, 2015 and 30 June 2016, the Hongri Acron Group had approximately 2,100, 2,400, 2,200, 1,800 employees based in the PRC respectively. Staff costs for the three years ended 31 December 2013, 2014 and 2015 and for the six months ended 2016 were approximately HK\$130,443,000, HK\$157,135,000, HK\$152,808,000 and HK\$65,275,000 respectively, which mainly included wages and salaries, staff welfare and contributions to various government employees benefits plans. Directors' emoluments for the three years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2015 and 2016 were approximately HK\$2,351,000, HK\$3,200,000, HK\$2,671,000, HK\$1,257,000 and HK\$1,025,000 respectively.

Pledged Assets

The Hongri Acron Group had pledged some of its assets, mainly property, plant and equipment, land use rights and bank deposits as security for borrowings. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Hongri Acron Group had pledged its assets in carrying amount of approximately HK\$353,203,000, HK\$372,012,000, HK\$443,476,000 and HK\$471,592,000 respectively.

Foreign Exchange Exposure

The Hongri Acron Group operates mainly in PRC and majority of transactions are denominated in RMB. The Hongri Acron Group is exposed to limited foreign exchange risk as most assets and liabilities are denominated in RMB. The Hongri Acron Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Hongri Acron Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The main operations of the Hongri Acron Group were in the PRC and most of the transactions were denominated in RMB. The Hongri Acron Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the the three years ended 31 December 2015 and for the six months ended 30 June 2016.

Contingent Liabilities

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Hongri Acron Group did not have any reportable contingent liabilities except for those disclosed in the accountants' report contained in Appendix II to this circular.

Prospect

The Hongri Acron Group will continue its business focusing on production and sale of fertilizer products. For details of the business prospect of the Hongri Acron Group, please refer to the section headed "Financial and Trading Prospects of the Enlarged Group" in Appendix I to this circular.

Future plan

The Hongri Acron Group did not have any concrete, and immediate plans for material new investments as at the Latest Practicable Date.

Shareholders should consider carefully all of the information set out in this circular and, in particular, the following risk factors associated with the Target Group as well as other information, including the financial information of the Group, financial information of the Target Group and the unaudited pro forma financial information of the Enlarged Group set forth in Appendices I, II and III, respectively, before making a voting decision at the EGM. If any of the possible events described below occur, the Target Group's business, financial condition or results of operations could be materially and adversely affected.

RISKS RELATING TO THE BUSINESS INTERRUPTION CAUSED BY THE NON-COMPLIANCE WITH APPLICABLE ENVIRONMENTAL REGULATIONS IN THE INDUSTRY

The activities of the Target Group are subject to laws and regulations relating to applicable environmental laws and regulations. In the event of non-compliance with applicable environmental laws and regulations, the Target Group could be subject to a variety of penalties and other administrative actions, including fines, suspension and non renewal of various environmental permits or suspension of operations.

The production facilities of the Target Group in Linyi City, Shandong Province, the PRC ("Linyi City") was ordered by the local government to suspend production in March 2015 due to the non-compliance of the environmental standard for pollutant discharge during production. The Target Group gradually resumed full production during the period from April 2015 to November 2015 upon the receipt of the resumption notices by the local government following the compliance with relevant environmental standard by the Target Group.

However, there is no assurance that the Target Group will effectively prevent non-compliance with applicable environmental laws and regulations in the future. If the production operation is found to be non-compliant with applicable environmental laws or regulations in the future, the Target Group may be ordered to suspend all or a portion of its operations and may be subject to fines and other penalties, which may materially and adversely affect its business, financial condition and results of operations.

RISK RELATING TO THE DEFAULT ON BANK LOANS GRANTED TO CERTAIN INDEPENDENT BORROWERS UNDER THE EXISTING CORPORATE GUARANTEES PROVIDED BY THE TARGET GROUP

As at the Latest Practicable Date, the corporate guarantees provided by the Target Group for certain independent borrowers to banks ("**Corporate Guarantees**") in the PRC amounted to RMB180,000,000. The existing Corporate Guarantees will expire during the period from 5 November 2016 to 19 July 2017 as disclosed in the letter from the Board contained in this circular. The Directors have no intention to renew the Corporate Guarantees upon expiry. Following Completion, the Directors will liaise with banks as well as Huasheng and Linyi Meilian for the release of the Corporate Guarantees to reduce the exposure of such guarantees to the Enlarged Group.

There is no assurance that the existing Corporate Guarantees will be released before the current expiry dates. The Target Group could be called upon to fulfill the material payment obligations under any Corporate Guarantees provided to the banks. Should any material default by the borrowers occur under bank financings guaranteed by the Target Group before the release of the relevant Corporate Guarantees, the Target Group would be called upon to make significant payments to the banks, which could materially and adversely affect its results of operations and financial conditions.

RISK RELATING TO THE CONSECUTIVE LOSS MAKING POSITION OF THE TARGET GROUP AND THERE IS NO ASSURANCE THAT THE TARGET GROUP WILL TURN AROUND ITS FINANCIAL POSITION IN THE FUTURE

During the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and for the six months ended 30 June 2016, the Target Group reported loss of approximately HK\$202,794,000, HK\$34,261,000, HK\$133,531,000 and HK\$135,864,000 respectively.

Losses for the years ended 31 December 2013 and 31 December 2014 were mainly attributable to the assets impairment of obsolete assets invested by the Target Group prior to 2013 and the then existing Corporate Guarantees, which were non-operational and non-recurring in nature. Disregarding such impact for the respective years, the Target Group would have reported a profit of approximately HK\$27,091,000 and HK\$39,016,000 for each of year ended 31 December 2013 and 31 December 2014.

As disclosed in the letter from the Board as contained in this circular, the production and operation of the Target Group was adversely affected by the suspension of production in 2015 and the temporary reduction in production capacity in early 2016 and significant losses were resulted for the years ended 31 December 2015 and for the six months ended 30 June 2016. The Target Group has resumed 60% of its production capacity as at the Latest Practicable Date and based on the current business plan of the Target Group, utilization of capacity of the Target Group's production facilities will reach 70% to 80% by the end of 2016 and 100% in 2017.

If the Target Group fails to resume the planned utilization capacity, there is no assurance that the Target Group will be able to turn around its financial position in the future, which could have a material adverse effect on its business, financial condition, working capital, results of operations and prospects.

RISK RELATING RELOCATION PLAN PURSUANT TO THE NOTICE

Hongri Acron, the principal operating subsidiary of the Target Group located in Linyi City, may be affected by the relocation plan. On 2 July 2015, 臨沂市人民政府辦公室 (Linyi Municipal People's Government Office*) issued the Notice in respect of (A) the closure and relocation of (i) chemical companies which are within the city center and did not complete the formalities or comply with the environmental standards by the end of 2015; and (ii) chemical companies which are not within the planned industrial area and did not comply with the environmental, health and safety standards by the end of 2017; and (B) relocation of all chemical companies by 2020.

Hongri Acron was originally listed as one of the companies to be relocated in 2016 but was later permitted to postpone its relocation, which is now scheduled to start in 2018 and to complete by 2020 pursuant to the 《臨沂市人民政府會議紀要》(Minutes of Meeting of the Linyi Municipal People's Government*) dated 16 October 2015.

As disclosed in the letter from the Board of this circular, (i) Hongri Acron intends to continue its principal operation in its current premises until and unless it has received a Relocation Order; (ii) Hongri Acron has not yet received any Relocation Order and there is no negotiation between the local government and Hongri Acron regarding the relocation; and (iii) Hongri Acron is improving the environmental, health and safety standard of its production premises and will liaise with Linyi Municipal People's Government Office to obtain extension of the above relocation deadline from the Notice when the relocation negotiation commences.

However, unforeseeable changes to the local government's relocation plan as well as local economic conditions may affect the policies carried out by the local government, which may not necessarily have a positive effect on Hongri Acron's operations and its relocation. The local government may adopt additional and more stringent policies and timetable on relocation in the future. If the Target Group fails to adapt its operations to the new policies and timetable that may come into effect, it may disrupt the business operations and prospects or cause it to incur additional costs, which the Target Group's business, results of operations and financial condition may be materially and adversely affected.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares, underlying Shares and debentures

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange:

(i) *Long positions in the Shares or underlying Shares of the Company and its associated corporations*

Name of Directors	Nature of interest	Number of Shares held	Number of Shares which may be allotted and issued upon the exercise of options held	Total Shares and Underlying Shares	Approximate percentage of interest (%) (Note 1)
Chi Wen Fu ("Mr. Chi")	Interest in controlled corporation (Note 2)	1,341,871,364	—	1,341,871,364	29.18%
	Beneficial owner	207,240,548	25,556,580	232,797,128	5.07%
Shum Sai Chit (Note 3)	Beneficial owner	14,666,305	11,500,461	26,166,766	0.57%
Chi Bi Fen	Beneficial owner	12,352,499	19,167,435	31,519,934	0.69%
Guo Mengyong	Beneficial owner	2,625,000	3,833,487	6,458,487	0.14%
Kwong Ping Man	Beneficial owner	—	6,389,145	6,389,145	0.14%
Sheng Hong	Beneficial owner	1,775,000	3,611,316	5,386,316	0.12%
Lau Chi Kit	Beneficial owner	—	6,389,145	6,389,145	0.14%

Notes:

1. Based on 4,597,976,843 Shares in issue as at the Latest Practicable Date.
2. Mr. Chi, an executive Director and the chairman of the Company, was deemed to be interested in the 1,341,871,364 Shares held by Alpha Sino International Limited (“**Alpha Sino**”) by virtue of Mr. Chi’s holding of 83.74% of the issued share capital of Alpha Sino.
3. Mr. Shum Sai Chit is an executive Director.

(ii) Long positions in debentures

Name of Directors	Nature of interest	Amount of debentures held (SGD)
Mr. Chi	Beneficial Owner	2,500,000

Substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group:

Long positions in the Shares

Name of Shareholders	Number of Shares	Approximate percentage of interest (%)
Alpha Sino	1,341,871,364 (Note 1)	29.11%
International Finance Corporation	793,526,275 (Note 2)	17.22%

Notes:

1. Alpha Sino is owned as to 83.74% by Mr. Chi. Pursuant to a share mortgage agreement (“**Share Mortgage Agreement**”) dated 10 July 2014, Alpha Sino had mortgaged 549,280,000 Shares (representing approximately 12% of the issued share capital of the Company as at the Latest Practicable Date) to International Finance Corporation (“**IFC**”) as security for a loan agreement dated 30 May 2014 (as amended and restated on 7 December 2015) entered into between IFC and Baishan City Tianan Magnesium Resources Co. Ltd, a 87.95% owned subsidiary of the Company.
2. IFC has interest in an aggregate of 793,526,275 Shares of which (a) 244,246,275 Shares are beneficially owned by it and registered in its name; and (b) 549,280,000 Shares pursuant to the Share Mortgage Agreement.

Save as disclosed above, the Directors and the chief executive of the Company are not aware that any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the issued voting shares of any member of the Group.

3. COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group that need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

4. OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular and as at the Latest Practicable Date:

(a) Interests in service contracts

none of the Directors had any existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or which may be terminated by the Company within one year without payment of compensation (other than statutory compensation));

(b) Interests in assets

none of the Directors had any interest, direct or indirect, in any asset which have been since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Enlarged Group or are proposed to be acquired by or disposed of or leased to any member of the Enlarged Group; and

(c) Interests in contracts or arrangements

none of the Directors was materially interested in any contract or arrangement entered into with any member of the Enlarged Group, which contract or arrangement is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group taken as a whole.

5. LITIGATION

(a) Mr. Miao Xi Zhu against Mr. Shum Sai Chit, Mr. Chi Wen Fu, Capital Idea and Win Union

On 15 January 2013, Capital Idea Investments Limited (“**Capital Idea**”, a wholly owned subsidiary of the Company) acquired 2,180 shares of China Rare Earth Magnesium Technology Holdings Limited (“**CREMTH**”, formerly known as China Magnesium Limited) from Mr. Miao Xi Zhu (“**Mr. Miao**”) at a consideration of HK\$32,089,382. CREMTH is a non-wholly owned subsidiary of the Company and is currently mainly owned as to 64.99% by Fullocean Group Limited (“**Fullocean**” a non-wholly owned subsidiary of the Company), 23.28% by Capital Idea and 8.73% by Win Union Limited (“**Win Union**”). Win Union is also the minority shareholder of Fullocean.

Mr. Miao considered that he was misled to enter into the transaction at an undervalue. On 6 October 2014, Mr. Miao lodged a claim in relation to the transaction at the High Court of Hong Kong against Mr. Shum, Mr. Chi, Capital Idea and Win Union for the losses arising from selling shares at an undervalue. Mr. Shum, Mr. Chi and Capital Idea considered that the allegation of Mr. Miao went against the facts seriously. Prior to the completion of the transaction, Mr. Miao has been the second largest shareholder and director of CREMTH with a full knowledge of its overall operation and development plans. The consideration of the transaction was determined after over one month’s negotiation between the parties based on the assets, liabilities and performance of CREMTH, and thus there was no so-called sales at undervalue. To the best knowledge of the Company, as of Latest Practicable Date, the writ of summons of the litigation has been served on Mr. Shum, Mr. Chi, but not Capital Idea. Upon receiving the writ, Capital Idea will seek legal advice in relation to the claim and the necessary actions to be taken and will vigorously defend against the claim. The Company is of the view that this litigation will not have a material adverse impact on the business operation and financial position of the Enlarged Group. The Directors are of the opinion that no provision is required to be made.

(b) Labour Dispute

程彥亭 (*Cheng Yanting**)

On 6 July 2015, Cheng Yanting filed an application to 臨沂市勞動人事爭議仲裁委員會 (Linyi Labour and Personnel Dispute Arbitration Committee*) (“**Linyi Labour Arbitration Committee**”) for the ruling of (i) termination of Cheng Yanting’s employment with Hongri Acron and (ii) payment of employee’s compensation by Hongri Acron to Cheng Yanting in an aggregate amount of RMB5,658,087.

Linyi Labour Arbitration Committee issued a ruling dated 22 September 2015, pursuant to which, the said employment contract was terminated and Hongri Acron shall pay a total amount of employee’s compensation of RMB1,468,100 to Cheng Yanting.

On 30 September 2015, Hongri Acron, as the plaintiff, filed a motion in 山東省臨沂市羅莊區人民法院 (Shandong Province Linyi City Luozhuang District People's Court)* (**“Luozhuang Court”**) requesting for a new trial and dismissal of the arbitration application filed by Cheng Yanting. Luozhuang Court issued a judgement on 6 April 2016 and ordered Hongri Acron to pay a total amount of compensation of RMB227,562 to Cheng Yanting for termination of the employment contract under the said judgement (the **“First Court Judgement (Cheng)”**).

On 19 May 2016, Hongri Acron lodged an appeal in 山東省臨沂市中級人民法院(Shandong Linyi Intermediate People's Court*) (**“Linyi Intermediate Court”**) to demand for a new trial and revocation of the First Court Judgement (Cheng) and the case was on appeal as at the Latest Practicable Date.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff's claims pending the determination of the appeal. Having taking into account the amount involved in the latest judgment (i.e. RMB227,562), it is not expected to have any material adverse impact on the business operation or financial position of the Enlarged Group.

李長俠 (*Li Changxia**)

On 30 March 2015, Li Changxia filed an application to Linyi Labour Arbitration Committee for the ruling of (i) termination of Li Changxia's employment with Hongri Acron and (ii) payment of employee's compensation by Hongri Acron to Li Changxia in an aggregate amount of RMB3,623,637.

Linyi Labour Arbitration Committee issued a ruling dated 29 May 2015, pursuant to which, the said employment contract was terminated and Hongri Acron shall pay a total amount of employee's compensation of RMB649,936 to Li Changxia.

On 16 July 2015, Hongri Acron, as the plaintiff, filed a motion in Luozhuang Court requesting for a new trial and dismissal of the arbitration application filed by Li Changxia. Luozhuang Court issued a judgement on 11 March 2016 and ordered Hongri Acron to pay a total amount of compensation of RMB365,727 to Li Changxia for termination of the employment contract under the said judgement (the **“First Court Judgement (Li)”**).

On 11 April 2016, Hongri Acron lodged an appeal in Linyi Intermediate Court to demand for a new trial and revocation of the First Court Judgement (Li) and the case was on appeal as at the Latest Practicable Date.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff's claims pending the determination of the appeal. Having taking into account the

amount involved in the latest judgment and to the best knowledge of the Directors (i.e. RMB365,727), it is not expected to have any material adverse impact to the Enlarged Group.

劉向珍 (*Liu Xiangzhen**)

On 30 March 2015, Liu Xiangzhen filed an application to Linyi Labour Arbitration Committee for the ruling of (i) termination of Liu Xiangzhen's employment with Hongri Acron and (ii) payment of employee's compensation by Hongri Acron to Liu Xiangzhen in an aggregate amount of RMB1,130,119.

Linyi Labour Arbitration Committee issued a ruling dated 29 May 2015, pursuant to which, the said employment contract was terminated and Hongri Acron shall pay a total amount of employee's compensation of RMB409,317 to Liu Xiangzhen.

On 14 July 2015, Hongri Acron, as the plaintiff, filed a motion in Luozhuang Court requesting for a new trial and dismissal of the arbitration application filed by Liu Xiangzhen. Luozhuang Court issued a judgement on 15 March 2016 and ordered Hongri Acron to pay a total amount of compensation of RMB261,281 to Liu Xiangzhen for termination of the employment contract under the said judgement (the **"First Court Judgement (Liu)"**).

On 11 April 2016, Hongri Acron lodged an appeal to Linyi Court to demand for a new trial and revocation of the First Court Judgement (Liu) and the case is on appeal as at the Latest Practicable Date.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff's claims pending the determination of the appeal. Having taking into account the amount involved in the latest judgment (i.e. RMB261,281), it is not expected to have any material adverse impact on the business operation or financial position of the Enlarged Group.

仇景超 (*Qiu Jingchao**)

On 30 March 2015, Qiu Jingchao filed an application to Linyi Labour Arbitration Committee for the ruling of (i) termination of Qiu Jingchao's employment with Hongri Acron and (ii) payment of employee's compensation by Hongri Acron to Qiu Jingchao in an aggregate amount of RMB1,670,859.

Linyi Labour Arbitration Committee issued a ruling dated 29 May 2015, pursuant to which, the said employment contract was terminated and Hongri Acron shall pay a total amount of employee's compensation RMB459,743 to Qiu Jingchao.

On 16 July 2015, Hongri Acron, as the plaintiff, filed a motion in Luozhuang Court requesting for a new trial and dismissal of the arbitration application filed by Qiu Jingchao. Luozhuang Court issued a judgement on 14 February 2016 and

ordered Hongri Acron to pay a total amount of compensation of RMB279,492 to Qiu Jingchao for termination of the employment contract under the said judgement (the “**First Court Judgement (Qiu)**”).

On 11 April 2016, Hongri Acron lodged an appeal to Linyi Court to demand for a new trial and revocation of the First Court Judgement (Qiu) and the case is on appeal as at the Latest Practicable Date.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff’s claims pending the determination of the appeal. Having taking into account the amount involved in the latest judgment (i.e. RMB279,492), it is not expected to have any material adverse impact on the business operation or financial position of the Enlarged Group.

林現仁 (*Lin Xianren**)

On 20 June 2016, Lin Xianren filed an application to Linyi Labour Arbitration Committee for the ruling of (i) termination of Lin Xianren’s employment with Hongri Acron and (ii) payment of employee’s compensation by Hongri Acron to Lin Xianren in an aggregate amount of RMB1,517,800 and it was pending for results of arbitration as at the Latest Practicable Date.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff’s claims pending the determination of the arbitration. As the outcome of this case and the implementation of the ruling are uncertain, the impact on Hongri Acron cannot be estimated precisely at the present time.

(c) Hongri Acron as defendant

Contract Dispute with 平安銀行大連分行 (Ping An Bank Dalian Branch) (“**Ping An Bank Dalian**”)*

On 29 August 2014, Ping An Bank Dalian, as the plaintiff, filed a lawsuit to 大連市中級人民法院 (Dalian Intermediate People’s Court) (“**Dalian Court**”) against (i) 遼寧天成豐農農業發展有限公司 (Liaoning Tiancheng Agricultural Development Co., Ltd.*) (“**Liaoning Tiancheng**”) to demand for the repayment of loan (“**Loan**”) in the principal amount of RMB20,000,000 and the late interests; and (ii) the other five defendants, including Hongri Acron in respect of the repayment obligations under the respective guarantee agreements entered into among Ping An Bank Dalian, Liaoning Tiancheng and each of the five defendants for the provision of guarantee in respect of the Loan up to a maximum amount of RMB20,000,000.

On 6 March 2015, Dalian Court dismissed the plaintiff’s request against Hongri Acron.

On 14 April 2015, Ping An Bank Dalian filed an appeal to 遼寧省高級人民法院 (Liaoning High People's Court*) (**"Liaoning Court"**) to demand for the confirmation of Hongri Acron's repayment obligations under the guarantee agreement. On 10 December 2015, Liaoning Court issued the final judgment that Hongri Acron shall be responsible for the payment of outstanding principal and interest of the Loan under the guarantee agreement.

In 2016, Hongri Acron submitted a request for a retrial to 中華人民共和國最高人民法院 (The Supreme People's Court of The PRC) (the **"Supreme Court"**) in order to revoke the judgment made by Liaoning Court and to dismiss the claim against Hongri Acron by Ping An Bank Dalian. On 24 June 2016, the Supreme Court dismissed Hongri Acron's request.

As informed by the management of Hongri Acron, Hongri Acron is seeking legal advice on the claims from Ping An Bank Dalian and it has made full provision of approximately RMB19,231,000 (equivalent to approximately HK\$22,458,000) in respect of claims for the accounting year/period.

Contract dispute with 臨沂盛豐熱力設備有限公司 (Linyi Shengfeng Thermal Equipment Co., Ltd.) (**"Linyi Shengfeng"**)*

On 10 December 2014, Linyi Shengfeng, as the plaintiff, filed a lawsuit in Luozhuang Court against Hongri Acron to demand for the outstanding equipment purchase price of RMB1,021,040 and late penalty and related costs of litigation. On 16 June 2015, Luozhuang Court issued a judgment and ordered Hongri Acron to pay the outstanding equipment purchase price of RMB1,015,415 and late penalty charges to Linyi Shengfeng and related litigation costs of RMB18,990. Hongri Acron lodged an appeal to Linyi Intermediate Court against the judgment. On 2 November 2015, Linyi Intermediate Court revoked the aforesaid judgment and ordered for a new trial in Luozhuang Court. As at the Latest Practicable Date, the civil action against Hongri Acron was still on trial.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff's claims pending the determination of the arbitration. Having taking into account the amount involved in the latest judgment (i.e. RMB1,034,405), it is not expected to have any material adverse impact on the business operation or financial position of the Enlarged Group.

Contract dispute with 山東邦盛農業生產資料有限公司 (Shandong Bangsheng Agri-Production Materials Co. Ltd.) (**"Shangdong Bangsheng"**)*

On 8 March 2016, Shangdong Bangsheng, as the plaintiff, filed a lawsuit in Luozhuang Court against Hongri Acron to demand for the repayment of outstanding trading debts of RMB1,320,000 and late penalty and related costs of litigation. The said lawsuit is pending for trial as at the Latest Practicable Date.

To the best knowledge of the Directors and as advised by the management of Hongri Acron, Hongri Acron believes it has grounds not to accede to the plaintiff's claims pending the determination of the appeal. Having taking into account the amount involved in the latest judgment (i.e. RMB1,320,000 plus legal costs), it is not expected to have any material adverse impact on the business operation or financial position of the Enlarged Group.

Contract dispute with 齊魯銀行濟南東環分行 (Qilu Bank Jinan Donghuan Branch) (“Qilu Bank”)*

On 20 June 2016, Qilu Bank, as plaintiff, filed a lawsuit to Luozhuang Court requesting the court to order (i) 臨沂燁華焦化有限公司 (Linyi Yehua Company Limited*) (“**Linyi Yehua**”) to immediately repay the loan in a principal amount of RMB40,000,000 and the loan interests of RMB27,380.69 up to 3 June 2016; (ii) 華盛江泉集團有限公司 (Huasheng Jiangquan Group Co. Ltd.*) (“**Huasheng**”) and Hongri Acron to be responsible for the repayment obligations under the loan; and (iii) all the defendants to be responsible for the litigation costs.

The case is pending for trial as at the Latest Practicable Date. Hongri Acron is seeking legal advice on the claim from Qilu Bank and will vigorously defend against the claim. As the case is pending for the trial, the impact on Hongri Acron cannot be estimated precisely at the present time.

Contract dispute with 臨沂新天地置業有限公司 (Linyi Xintiandi Ltd.) (“Linyi Xintiandi”)*

On 27 June 2016, Linyi Xintiandi, as plaintiff, filed a arbitration to 臨沂市仲裁委員會 (Linyi City Arbitration Committee*) in regards to a 《沂蒙小區片區合作開發協議》 (Yimeng Community Area Joint Development Agreement*) entered into between Hongri Acron and Linyi Xintiandi on 26 May 2016 which was terminated by Hongri Acron on 8 June 2016.

As the case is still pending for the arbitral decision, the cost exposure of the claims cannot be estimated precisely at the present time. As advised by Hongri Acron, such claims are not expected to have any material adverse impact on the business operation or financial position of Hongri Acron.

(d) Hongri Acron as plaintiff

Contract dispute case with 天元建設集團有限公司 (Tianyuan Construction Group Co., Ltd) (“Tianyuan Construction”)

On 22 March 2012, Hongri Acron, as the plaintiff, filed a civil lawsuit in the Luozhuang Court, requesting the court (i) to order Tianyuan Construction as the defendant, to take measures to repair the damage to the roof seepage, wall cracks, foundation subsidence, etc due to the defendant's construction work done for the

plaintiff, (ii) to order the defendant to pay RMB1.25 million to the plaintiff as compensation for the losses caused to the plaintiff, and (iii) to order the defendant to be liable for the litigation costs.

On 19 May 2014, the Luozhuang Court issued a judgement and ordered Tianyuan Construction to pay to Hongri Acron RMB413,420 as compensation for the repairing costs, and dismissed the plaintiff's other claims.

On 3 July 2014, Tianyuan Construction lodged an appeal in Linyi Intermediate Court to demand for a new trial and revocation of the first court judgement, and to demand that the litigation costs arising from the first trial and the second trial shall be borne by Hongri Acron.

The case is being heard in the second trial as at the Latest Practicable Date.

Contract dispute case with 遼寧錦豐農業生產資料有限公司 (Liaoning Jinfeng Agricultural Production Ltd.), “Liaoning Jinfeng”) and Liaoning Tiancheng*

On 12 May 2014, Hongri Acron, as the applicant, filed an application to Linyi Arbitration Committee for the ruling of (i) payment of RMB 9 million as compensation as well as interest and penalty to Hongri Acron for breach of contract by Liaoning Jinfeng and/or Liaoning Tiancheng as the guarantor of the obligation by Liaoning Jinfeng under the said contract; and (ii) payment of litigation cost by both Liaoning Jinfeng and Liaoning Tiancheng.

On 28 May 2014, Hongri Acron lodged a complaint to 臨沂市公安局羅莊分局 (Linyi Luozhuang Public Security*) and demanded for (i) an investigation by the Linyi Luozhuang Public Security as to whether there are criminal liabilities of Liaoning Jinfeng, Liaoning Tiancheng and their responsible officers in relation to the breach of contract; and (ii) the return of advance payment of RMB 9 million and compensation for economic losses to Hongri Acron by Liaoning Jinfeng and/or Liaoning Tiancheng.

On 2 July 2014, Linyi Luozhuang Public Security notified 陳桂平 (Chen Guiping*), the controller of both Liaoning Jinfeng and Liaoning Tiancheng that the contract fraud case was being investigated. On 26 August 2014, Linyi Luozhuang Public Security issued a warrant to detain Chen Guiping at 臨沂市看守所 (Linyi City Detention Centre*).

On 23 July 2015, Luozhuang Court issued a ruling in favour of the applicant and ordered that (i) the property of Hongri Acron shall be preserved, and (ii) the bank deposit of RMB10,000,000 of Liaoning Jinfeng and Liaoning Tiancheng or assets with equivalent value shall be frozen.

As advised by the management of Hongri Acron, the case is still being investigated by the police as at Latest Practicable Date.

Save for the contractual dispute with Ping An Bank Dalian which results in the provision of the claims made in the accounts of the Target Group, the Board does not envisage that the above legal proceedings will have any material adverse impact on the financial performance and trading position of the Enlarged Group.

Saved as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Enlarged Group, that would have a material adverse effect on its business, financial condition or results of operations.

6. MATERIAL CONTRACTS

The following contracts were entered into by members of the Enlarged Group (not being a contract entered into in the ordinary course of business) during the period of two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the sale and purchase agreement dated 19 December 2014 entered into among Earnmill Holdings Limited (“**Earnmill**”), the holding company of Group Sense prior to completion of this aforesaid agreement as vendor, Ming Xin Developments Limited (“**Ming Xin**”), an indirectly wholly-owned subsidiary of the Company as purchaser, and Tam Wai Ho, Samson and Tam Wai Tong, Thomas, as the guarantors, pursuant to which, Ming Xin has conditionally agreed to acquire and Earnmill has conditionally agreed to sell an aggregate of 500,000,000 shares (represent 41.75% of the issued share capital) of Group Sense for a total consideration of HK\$229,600,000 (equivalent to HK\$0.4592 per share sold);
- (b) the subscription agreement dated 19 December 2014 entered into between Group Sense and Ming Xin in relation to the subscription of 239,532,000 new shares to be subscribed by the Ming Xin and issued by Group Sense at HK\$0.32 per share;
- (c) the loan agreement dated 19 December 2014 entered into between Get Nice Securities Limited, an Independent Third Party, (as the lender) and the Company (as the borrower) in relation to a standby loan facility of up to HK\$284,000,000 granted by Get Nice Securities Limited to the Company;
- (d) the guarantee agreement dated 12 January 2015 and the renewal agreement dated 10 July 2015 entered into between Hongri Acron and 平安銀行臨沂分行 (Ping An Bank Linyi Branch*) (the “**Ping An Bank Linyi**”), a licensed financial institution in the PRC and an Independent Third Party for the provision of the guarantee by Hongri Acron in favour of 臨沂蒙飛商貿有限公司 (Linyi Mengfei Commercial Company Limited*) (“**Linyi Mengfei**”), an Independent Third Party and a subsidiary of Huasheng, in a maximum amount of RMB40,000,000 (equivalent to approximately HK\$46,800,000) in respect of a loan granted by Ping An Bank Linyi to Linyi Mengfei for the principal amount of RMB40,000,000 (equivalent to approximately HK\$46,800,000) for the period up to 10 July 2016;

- (e) the underwriting agreement dated 14 April 2015 entered into between the Company and Shenyin Wanguo Capital (H.K.) Limited, an Independent Third Party (the “**Underwriter**”), in relation to the underwriting arrangement in respect of the proposed issue by way of open offer to raise not less than HK\$581.25 million and not more than HK\$630.53 million by issuing not less than 1,453,119,268 shares and not more than 1,576,335,935 shares at the subscription price of HK\$0.40 per share;
- (f) the contract dated 24 July 2015 entered into between Blue Atlantic International Limited, a subsidiary of the Company, and the People’s Government of Ruichang City, Jiangxi Province, the PRC, in relation to the acquisition of land use rights of a land parcel with a site area of 800 mu located at Chemical Industrial Park, Matou Town, Ruichang to be used for the establishment of fertiliser production facilities to further expand the production scale of the Group’s ecological fertiliser business;
- (g) the share transfer agreement dated 12 August 2015 entered into among Hong Kong New Materials Industry Investment Company Limited (“香港新材料產業投資有限公司”) (“**Hong Kong New Materials**”), an indirect wholly-owned subsidiary of Group Sense, 甘肅騰達西鐵資源控股集團有限公司 (“Gansu Tengda West Iron Resources Holding Group Co., Ltd.”*) (“**Gansu Tengda**”), 杭州鍋爐集團股份有限公司 (“Hangzhou Boiler Group Co., Ltd.”*) (“**Hangzhou Boiler**”) and Wang Jian Min (王建民), each being an Independent Third Party of Group Sense and the Company, pursuant to which Hong Kong New Materials has conditionally agreed to acquire and Gansu Tengda, Hangzhou Boiler and Wang Jian Min have conditionally agreed to sell the entire equity interest in 新疆騰翔鎂製品有限公司 (Xinjiang Tengxiang Magnesium Products Company Limited*), at a total consideration of RMB72.28 million in cash from internal resources of Group Sense;
- (h) the guarantee agreement dated 12 August 2015 entered into between Hongri Acron and 齊魯銀行濟南東環分行 (Qilu Bank, Jinan Donghuan branch*) (the “**Qilu Bank**”), a licensed financial institution in the PRC and an Independent Third Party, and for the provision of the guarantee by Hongri Acron in favour of Linyi Yehua, an Independent Third Party and a subsidiary of Huasheng, for the maximum amount of RMB50,000,000 (equivalent to approximately HK\$58,500,000) in respect of a loan granted by Agricultural Bank Linyi to Linyi Yehua for a principal amount of RMB50,000,000 (equivalent to approximately HK\$58,500,000) for the period from 14 August 2015 to 3 June 2016;
- (i) the underwriting agreement dated 20 August 2015 entered into among the Company, and Ming Xin and Earnmill as underwriters in relation to the underwriting arrangement in respect of the proposed issue of 1,437,195,029 new Shares (the “**Offer Share(s)**”) to be offered to qualifying Shareholders on the basis of one (1) Offer Share for every one (1) Share at the issue price of HK\$0.20 per Offer Share;
- (j) the guarantee agreement dated 13 November 2015 entered into between Hongri Acron and 臨沭縣農村信用合作聯社 (Linshu Agricultural Credit Cooperation Union*) (the “**Linshu Credit Union**”), a licensed financial institution in the PRC and an Independent Third Party, for the provision of the guarantee by Hongri Acron

in favour of 臨沂美聯重工有限公司 (Linyi Meilian Zhonggong Co. Ltd.*) (“**Linyi Meilian**”), an Independent Third Party for the maximum amount of RMB58,500,000 (equivalent to approximately HK\$68,445,000) in respect of a loan granted by Linshu Credit Union to Linyi Meilian for a principal loan amount of RMB39,000,000 (equivalent to approximately HK\$45,630,000) for the period from 13 November 2015 to 12 November 2016;

- (k) the guarantee agreement dated 19 November 2015 entered into between Hongri Acron and Ping An Bank Linyi for the provision of the guarantee by Hongri Acron in favour of Linyi Yehua for the maximum amount of RMB48,000,000 (equivalent to approximately HK\$56,160,000) in respect of a loan granted by Ping An Bank Linyi to Linyi Yehua for a principal amount of RMB48,000,000 (equivalent to approximately HK\$56,160,000) for a period from 19 November 2015 to 19 May 2016;
- (l) the guarantee agreement dated 16 January 2016 entered into between Hongri Acron and 中國農業銀行股份有限公司臨沂羅莊支行 (Agricultural Bank of China, Linyi Louzhuang branch*) (the “**Agricultural Bank Linyi**”), a licensed financial institution in the PRC and an Independent Third Party, for the provision of the guarantee by Hongri Acron in favour of Huasheng, an Independent Third Party for the maximum amount of RMB41,000,000 (equivalent to approximately HK\$47,970,000) in respect of a loan granted by Agricultural Bank Linyi to Huasheng for a principal amount of RMB41,000,000 (equivalent to approximately HK\$47,970,000) for the period from 16 January 2016 to 16 May 2016;
- (m) the guarantee agreement dated 20 March 2016 entered into between Hongri Acron and Agricultural Bank Linyi for the provision of the guarantee by Hongri Acron in favour of Huasheng for the maximum amount of RMB50,000,000 (equivalent to approximately HK\$58,500,000) in respect of a loan granted by Agricultural Bank Linyi to Huasheng for a principal amount of RMB50,000,000 (equivalent to approximately HK\$58,500,000) for the period from 20 March 2016 to 19 March 2017;
- (n) the guarantee agreement dated 6 May 2016 entered into between Hongri Acron and Agricultural Bank Linyi and Huasheng for the provision of the guarantee by Hongri Acron in favour of Huasheng for the maximum amount of RMB50,000,000 (equivalent to approximately HK\$58,500,000) in respect of a loan granted by Agricultural Bank Linyi to Huasheng for a principal amount of RMB50,000,000 (equivalent to approximately HK\$58,500,000) for the period from 6 May 2016 to 5 November 2016; and
- (o) the Acquisition Agreement.

7. EXPERTS AND CONSENTS

The following set out the qualifications of the experts who gave opinion or advice contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng Limited	Certified public accountants
TC Capital International Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the above experts did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

The above experts have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters and references to their names in the form and context in which they appear respectively.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which have been, since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group, nor were they materially interested in any contract or arrangement which was entered into with any member of the Enlarged Group, was subsisting as at the Latest Practicable Date and is significant in relation to the business of the Enlarged Group taken as a whole.

8. MISCELLANEOUS

- (a) The Company secretary of the Company is Mr. Luk Sai Wai Simon, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of Institute of Chartered Accountants in England and Wales. Mr. Luk received a Master degree in Business Administration from the University of Strathclyde, United Kingdom.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the Company's principal place of business in Hong Kong is located at Unit 2605, 26th Floor, Harbour Centre 25 Harbour Road, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (d) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents or copies will be available for inspection at our principal place of business in Hong Kong at Unit 2605, 26th Floor, Harbour Centre 25 Harbour Road, Wanchai, Hong Kong during the normal business hours from the date of the circular and up to and including the date of the EGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Acquisition Agreement;
- (c) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out under the section headed “Letter from the Independent Board Committee” of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out under the section headed “Letter from the Independent Financial Adviser” of this circular;
- (f) the annual reports of the Company for the two years ended 31 December 2014 and 31 December 2015;
- (g) this interim report of the Company for the six months ended 30 June 2016;
- (h) the accountants’ report of the Target Group, the text of which is set out in Appendix II to this circular;
- (i) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (j) the written consents referred to in the paragraph headed “Experts and Consents” in this appendix;
- (k) the circular of the Company dated 3 February 2015 in relation to, among others, the sale and purchase of shares in Group Sense; and
- (l) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



世紀陽光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Century Sunshine Group Holdings Limited (the “**Company**”) will be held at Unit 2605, 26th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong on 19 October 2016 (Wednesday) at 2:30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the Acquisition Agreement (as defined in the circular dated 27 September 2016 despatched to the shareholders of the Company (the “**Circular**”), a copy of the Acquisition Agreement marked “A” together with a copy of the Circular marked “B” being tabled before the meeting and initialled by the chairperson of the meeting for the purpose of identification), the terms and the transactions contemplated under the Acquisition Agreement, including the Acquisition (as defined in the Circular) and the provision of Financial Assistance (as defined in the Circular) (the “**Transactions**”), be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company (the “**Director**”) or (if affixing of seal is required) any two Directors) be and are hereby authorised to execute all such other documents and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Acquisition Agreement and completion of the Acquisition Agreement as he may consider necessary, desirable or expedient to give effect to the Acquisition Agreement and the Transactions, including, without limitation, exercising or enforcing any right under the Acquisition Agreement and to agree to any amendments to any of the terms of the Acquisition Agreement.”

By Order of the Board
Century Sunshine Group Holdings Limited
Chi Wen Fu
Chairman

Hong Kong, 27 September 2016

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) Any member of the Company entitled to attend and vote at the EGM (or any adjournment of EGM) is entitled to appoint one proxy or more proxies (for member of the Company who is the holder of two or more shares) to attend and vote in his or her stead. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy completed in accordance with the instructions set out in the form, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment of EGM.
- (3) Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of EGM (as the case may be) should you so wish, and in such event, the form of proxy shall be deemed to be revoked.
- (4) In case of joint holders of any share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled to vote at EGM, but if more than one of such joint holders are present at the EGM in person or by proxy, then one of the said persons to present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect of such share.
- (5) A form of proxy for use at the EGM is enclosed with this notice.
- (6) In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the resolution to be proposed at the meeting convened by this notice will be voted on by way of poll with Mr. Yang (as defined in the Circular), Ms. Zou Li and their respective associates abstaining from voting.
- (7) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at or after 12:00 noon on date of the EGM and/or the Hong Kong Observatory has announced at or after 10:00 a.m. on date of the EGM that either of the above mentioned warnings is to be issued within the next two hours, the EGM shall be postponed. The Company will post an announcement on the websites of the Company and The Stock Exchange of Hong Kong Limited to notify the Shareholders of the date, time and place of the rescheduled meeting.
- (8) The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force. Shareholders should make their own decision as to whether they would attend the EGM under bad weather conditions bearing in mind their own situations and if they choose to do so, they are advised to exercise care and caution.

As at the date of this notice, the directors of the Company are:

Executive Directors: Mr. Chi Wen Fu, Mr. Shum Sai Chit and Ms. Chi Bi Fen

Non-executive Director: Mr. Guo Mengyong

Independent non-executive Directors: Mr. Kwong Ping Man, Mr. Sheng Hong and Mr. Lau Chi Kit